

# **Towards an Integrated Approach to Microfinance**

**A Case for the Integration of Financial and  
Non-Financial Services in Microfinance Institutions**

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**Clients of Pro Mujer Bolivia, a microfinance institution  
in La Paz, Bolivia**  
Source: Eva Orbuch



**A loan officer visiting a client and his  
greenhouse business in Cochabamba, Bolivia**  
Source: Eva Orbuch



**A loan group in Pro Mujer Peru  
in Puno, Peru**  
Source: Eva Orbuch



## **ABSTRACT**

This report focuses on the contemporary field of microfinance in Peru and Bolivia, two countries that have well-developed and rapidly growing microfinance sectors, and whose microfinance institutions (MFIs) serve as models for the rest of Latin America and even the global microfinance community. While much research in this broad field emphasizes the perspective of the recipients of microfinance, this work primarily focuses on the qualitative perspective of MFI management, attempting to understand the rationale behind particular organizational choices.

One of the most commonly asked questions in the field of microfinance is how can practitioners find the balance between financial viability and living up to current industry standards, while not losing sight of the original development goals of microfinance. Research studies have demonstrated a lack of significant social impacts resulting from pure microcredit; these results suggest that microfinance should incorporate social interventions if it wants to serve as a tool that works towards accomplishing development milestones such as the Millennium Development Goals.

To answer these questions, this report compares a variety of MFI management perspectives on two major topics: the types of services offered to clients, and the relationship between financial sustainability and social impact in their organizations. The qualitative data collected from interviews with microfinance managers and experts, as well as supplementary quantitative and qualitative data from academic and practitioner-based literature suggest that the integrated approach has the potential to achieve the balance between enhancing MFIs' ability to both bring about authentic and comprehensive social impact and to allow these entities be solid and financially viable. Thus, I ultimately argue that the integrated model of service delivery, in the appropriate contexts, is highly valid and should be expanded upon in the field of microfinance.

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## ***Introduction***

Microfinance is a concept that has greatly expanded in meaning and practice since its emergence as a relatively narrow field with a limited number of practitioners. For that reason, it has since become much more difficult for people to agree on a set definition of microfinance, but many define it as the means by which fair financial services are made available to people who are prevented from participating in their country's formal financial sector. Micro-loans, often targeted to women, are generally intended to help impoverished clients develop and sustain a business to increase their family's income.

Because microfinance has greatly diversified, there are a variety of ways to differentiate between MFIs. In this report, MFIs are distinguished on the basis of their particular approach to service delivery; *what* products and services they choose to offer to clients, *why* they make this choice, and *how* they administer those services. There is one camp of MFIs that, in order to be able to maximize operational efficiency, gather a large number of clients, and in order to be a lucrative investment for funders, provide only financial products (primarily small loans) to their clients. The strategy of such MFIs is in contrast to the strategy of microfinance organizations that consider the various other ways to be an instrument for development and to achieve the greatest social impact possible on the target population, (rather than making profit and growth) as the organization's primary objectives. Such an approach often manifests itself in MFIs offering additional services beyond standard credit products. For the purposes of this report, this approach is termed the "integrated" approach to microfinance. These additional financial and non-financial services range from savings schemes, life insurance products, education modules on a variety of topics (e.g., financial literacy, business training, family life, and

health) and healthcare (most often in the form of preventative primary care and maternal and child care).

This report focuses on the various approaches to service delivery in the microfinance sectors of Peru and Bolivia, which are well-developed and rapidly growing, and whose MFIs serve as models not only for other Latin American nations, but the global microfinance community as well. Microfinance in Latin America has gained momentum primarily in the past thirty years, and while its microfinance sector is not as established as that of Asia, it has developed some significant innovations and management techniques that are exported internationally. This exporting of expertise is also referred to as the “microfinance brain drain,” which is heavily populated by Peruvians and Bolivians for the reason that MFIs there have received a lot of attention and training from international consultancies.<sup>1</sup> Due to the fact that Peru was one of the first Latin American countries to move away from a group-based village-banking model and develop a methodology for individual loans, MFIs around the world particularly seek out Peruvian expertise in managing individual credit portfolios. Former Bolivian MFI managers are also currently CEOs and board members of MFIs in Mexico and around the world.

As of 2009, MixMarket reported that Peru had sixty-five total MFIs, a gross loan portfolio of 5.5 billion dollars, and 3.1 million active borrowers. In 2005 the microfinance sector in Peru represented only five percent of the total financial sector, but the country’s MFIs had as much as forty percent of the total number of borrowers in the

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<sup>1</sup> Conger, Lucy. 2010. “Experts from Peru and Bolivia are leading the development of microfinance in big markets.” Inter-American Development Bank.

financial system.<sup>2</sup> As of 2009, MixMarket reported that Bolivia had twenty-six total MFIs, a gross loan portfolio of 1.9 billion dollars, and 872,655 active borrowers.<sup>3</sup> Bolivia's microfinance sector is clearly on a much smaller scale than Peru's, but both sectors are explored in this study because they belong to neighboring countries that are microfinance exemplars in the world, and both have a mix of purely financial MFIs and service integrated MFIs.

Much research in the microfinance field emphasizes the perspective of the recipients and has attempted to measure the effects of services on clients' lives. Microfinance literature has also focused on understanding why the world's poorest borrowers present a surprisingly low credit risk.<sup>4</sup> My study takes a different approach, instead focusing on the qualitative perspectives of MFI management. Because the client perspective is only one piece of the puzzle in determining which MFI practices are most favorable and should be imitated, it is essential to learn from leaders who have the most direct experience managing the multifaceted operations of these organizations.

Based on preliminary research, I assumed that achieving a balance between the financial sustainability and positive social impact of an organization is not only a prevalent goal for organizations in the field of microfinance, but should be considered one of the most central goals of such organizations.<sup>5</sup> In accordance with this assumption, the primary research question of my study is: what approach to service delivery is most

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<sup>2</sup> MixMarket. 2005. Peru country report.

<sup>3</sup> MixMarket, Bolivia country report: <http://www.mixmarket.org/mfi/country/Bolivia>, accessed May, 2011.

<sup>4</sup> Canales, Rodrigo. 2010. "Weaving straw into gold: Universal goals meet particularistic practices in microcredit." Yale School of Management.

<sup>5</sup> This assumption is based on my field observations and on literature such as Fisher and Sriram, 2002 and Battilana and Dorado, 2009.

effective in helping an MFI achieve a balance between financial well-being and positive social impact? For this project I have chosen to apply financial sustainability as the marker of financial well-being, or an organization's ability to reach its target population while covering administrative and other costs.<sup>6</sup> The idea that the microfinance industry offers both financial return and positive social impact is sometimes referred to as the "Double Bottom Line" (DBL), and my study attempts to determine what approach to service delivery can best help MFIs maintain a strong DBL.<sup>7</sup>

To answer the study's central question, I conducted a two month-long research operation in Peru and Bolivia, surveying a wide variety of integrated and non-integrated MFIs, and collecting qualitative data from field observations and interviews with microfinance stakeholders. I sought the perspective of microfinance stakeholders on their organization's particular approach to service delivery (again, *what* services do they offer, *why* do they have this particular focus, and *how* do they do it?), as well as their opinion on the relationship between financial sustainability and social impact in their organization. I want to note that I give the MFI *Pro Mujer* a disproportionate amount of focus in this paper because it is the most integrated organization in my study, meaning that it is the only MFI that integrates financial services with education and healthcare.

While all of the MFIs surveyed are significant in some way, I have chosen to use several

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<sup>6</sup> Acción Glossary of Microfinance Terms: In the microfinance context, Financial Sustainability is essentially the same as Operational Self-Sufficiency (OSS) and Financial Self-Sufficiency.

OSS=Total operating revenues/ total administrative and financial expenses. If the resulting figure is greater than 100, the organization under evaluation is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover administrative costs with client revenues.

<sup>7</sup> Tulchin, Drew. 2003. "Microfinance's double bottom line." Social Enterprise Associates.

entities as recurring examples of general industry trends, or as examples of especially interesting or unique practices.

After the field research, I supplemented my primary findings with quantitative and qualitative data from academic and practitioner-based literature. Contemporary literature presents uncertainty regarding the effects of microcredit, as scholars express doubt regarding the capacity of microfinance to serve as the poverty-alleviation tool it was once hoped and expected to be (see literature review section). Many members of the microfinance community now acknowledge the barriers to substantially changing the lives of clients of MFIs with micro-loans alone.<sup>8</sup> In accordance with the rationale of such individuals, if microcredit is being fashioned as a development tool that contributes to major anti-poverty initiatives such as the UN's Millennium Development Goals,<sup>9</sup> it should "put development back into microfinance."<sup>10</sup> This means incorporating social interventions to increase the likelihood for human development (i.e., moving clients out of poverty and improving their overall economic and social wellbeing).<sup>11</sup>

Based on the literature regarding microfinance and the perspectives of MFI leaders, I conclude that the integrated service approach has the most potential to achieve the double bottom line, or the balance between enhancing MFIs' ability to promote organizational financial sustainability and to bring about an improvement in the standard

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<sup>8</sup> Kotir and Obeng-Odoom. 2009. "Microfinance and rural household development: A Ghanaian perspective." *Journal of Developing Societies*, 25: 85.

<sup>9</sup> UN Millennium Development Goals, <http://www.un.org/millenniumgoals/>, accessed Dec, 2010.

<sup>10</sup> The sub-title of Fisher and Sriram's 2002 book is *Putting Development Back Into Microfinance*.

<sup>11</sup> Fisher and Sriram. 2002. *Beyond Micro-Credit: Putting Development Back into Micro-Finance*. New Delhi: Vistar Publications.

of living of clients and their families such that they are positively impacted socially as well as financially. My findings represent a diversity of opinions on the relationship between financial sustainability and social impact in MFIs. Some practitioners and experts believe that there is no conflict between the two objectives and that it is possible to find the proper balance between them, while others believe that there must be a tradeoff between the two objectives.

It must be acknowledged that there is no intrinsically correct way to practice microfinance, and bundling a variety of services into MFIs is not always the most suitable approach. It is certainly possible to practice integrated microfinance in an ineffective way that has little added positive effect on clients and on MFI operations. Still, my findings suggest that MFIs are more likely to be successful in achieving the social mission of microfinance if they adopt the integrated approach to service delivery, which would include not only the financial, but non-financial or social services in addition. Contrary to the beliefs of critics of the service integration approach, my data demonstrate that providing non-financial services to clients does not necessarily compromise an MFI's potential for financial sustainability. The microfinance industry would be remiss to dismiss the integrated approach for the misguided reasons of it not being valid or sustainable. In fact, my primary data illustrate experiences of practitioners who have found that not only does service integration not necessarily diminish sustainability and organizational wellbeing, but that it may actually serve to promote sustainability and enhance an MFI as an organization more generally. As more MFIs are coming to realize that there does not have to be a tradeoff between financial sustenance and effectively serving clients, it is becoming more common for MFIs to offer some form

of training, often focusing on business development. But the majority of microfinance clients in Latin America and in the world at large are not receiving non-financial services and MFIs are missing out on an opportunity to potentially be transformative change agents in clients' lives.

I begin my report with background information on service integration, and then a literature review of relevant microfinance research studies. Next, I discuss the methodology that I employed in this research project, and then I build on the existing literature by presenting the research findings from my interviews with a diverse array of microfinance stakeholders. In the findings section, I present a variety of general trends that I gathered from my experience studying Peruvian and Bolivian microfinance in the field, such as the prevalent approaches to microfinance service delivery, and current trends in issues like regulation and competition. The discussion section of the report proceeds to present findings based on field interviews, and is organized under the framework of my central argument about service integration. I begin by presenting my interviewees' views on the relationship between financial sustainability and social impact in MFIs. I then delve into my findings that come from microfinance management's perspective on their organization's particular approach. I demonstrate that from an operational view, service integration can be cost effective, improve competitiveness of an MFI, and improve client loyalty. From a social impact view, my findings suggest that integration can help improve the health status of clients, educate them about important topics, and overall increase the likelihood of moving clients out of poverty.

### ***Background***

There is an ongoing debate in the finance community regarding whether lenders

should specialize in financial services, or whether they should integrate non-financial services into microfinance programs.<sup>12</sup> In the scheme of the global network of MFIs, which as of 2007 was serving approximately 155 million clients,<sup>13</sup> there is still a relatively small number of MFIs that have pioneered the integrated approach and established successful models. While microfinance experts and even practitioners do not fully understand the financial repercussions of a service integration approach, it is generally accepted that going beyond basic credit and savings products adds cost to the operation of the MFI. Because of the willingness to incur this extra cost rather than prioritize profitability, the overwhelming majority of MFIs attempting the integrated approach are non-profit. Non-profit MFIs often have a more explicit social mandate than for-profits, and the integration of services supports the achievement of the mission and is sometimes even central to it. The majority of MFIs actually began as non-profit organizations like NGOs, credit unions and other financial cooperatives, and state-owned development and postal savings banks. A growing number of MFIs are now for-profit entities organized as non-bank financial institutions, commercial banks specializing in microfinance, or microfinance departments of full-service banks, largely because of the attractive ability to offer savings services as a for-profit organization.<sup>14</sup>

Pro Mujer is a non-profit example in which the combination of credit, education, and health is essential to its mission and its organizational model. Other relatively well-known pioneers of this approach are BRAC, Grameen Bank, Fonzoke, Sareeram,

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<sup>12</sup> Karlan and Valdivia. 2006. "Teaching entrepreneurship: Impact of business training on microfinance clients and institutions." Innovations for Poverty Action.

<sup>13</sup> This number comes from the Microcredit Summit Campaign.

<sup>14</sup> Consultative Group to Assist the Poor, Microfinance Gateway: <http://www.microfinancegateway.org/p/site/m/template.rc/1.26.9183/#6>, accessed May, 2011.

CRECER, ASA, FINCA-Peru, KWFT, and Esperanza.<sup>15</sup> In addition to being non-profit, another characteristic of most integrated MFIs is that they use some form of the village-banking model in which clients meet in groups on a regular schedule.<sup>16</sup> My field observations of various MFIs suggest that this is the case because it is easiest to deliver social services like education or training sessions in the context of a group meeting; MFIs can leverage the fact that clients already meet in groups on a regular basis, so adding other services does not require significant changes in organizational structure.

In addition to individual MFIs who have experimented with integrated services, this effort has received support from larger umbrella organizations. Due to the complexity of the work required to integrate an array of services to meet the diverse needs of clients, partnerships have been significant in these efforts. The development organization Freedom from Hunger (FFH) began a program called Credit with Education in 1989. Using research on adult learning, FFH designs education curricula in the topics of health, nutrition, and business and money management.<sup>17</sup> FFH's strategy is to work with in-country partner organizations that administer Credit with Education curricula through their own staff. Not only does FFH argue that combined education and credit greatly benefits poor women and families, but also that this is an "effective, practical and

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<sup>15</sup> Magner, Marge. 2007. "Microfinance: A platform for social change." *Grameen Foundation Publication Series*.

<sup>16</sup> Dunford, Christopher. 2001. "Building better lives: Sustainable integration of microfinance with education in health, family planning, and HIV/AIDS prevention for the poorest entrepreneurs." Microcredit Summit Campaign.

<sup>17</sup> Freedom From Hunger, Credit With Education: <http://www.freedomfromhunger.org/programs/cwe.php>, accessed March, 2011.

financially self-sustaining way for financial service organizations to provide value-added microfinance.”<sup>18</sup>

When considering how to evaluate an integrated MFI, an important question is how exactly the non-credit services should be delivered so as not to detract from the quality of financial services and from an institution’s financial sustainability. The two major approaches to service integration have been the “parallel” and the “unified” approach.<sup>19</sup> In the parallel system, an MFI forges partnerships with external service providers that can deliver social services to their clients. On the other hand, in the unified approach services come from the staff members within the MFI. One way in which unified MFIs sustain the cost of their non-financial services is to cross-subsidize these non revenue-earning activities with the margins earned from financial services. For example, an MFI can use the revenue it earns from interest charged on loans to pay for an education component. This practice is termed “cross-subsidizing,” and it can help organizations achieve a recovery of their operating and financial costs.

As Dunford illustrates in his discussion of the sustainable integration of microfinance and education, there are certainly advantages and challenges to each of these integrated service approaches. Parallel MFIs can generally offer a broader range of services because of the flexibility of partnerships, but they sometimes encounter challenges with financing and coordination among the different organizations. Unified MFIs have an easier time reaching financial sustainability for their services, but face management and staffing challenges, such as having to thoroughly train internal staff in

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<sup>18</sup> Freedom From Hunger, Credit With Education: <http://www.freedomfromhunger.org/programs/cwe.php>, accessed March, 2011.

<sup>19</sup> Dunford, 2001.

additional disciplines. Experts studying integrated microfinance do not claim that either option is inherently superior in terms of impacting the poor or maintaining an organization's financial health. Rather, there is agreement that the best method depends on the context of the entity.

## ***Literature Review***

### **Literature on the Impacts of Microfinance**

Over the past several years, microfinance has been under increased scrutiny as the global development community has gradually realized that microfinance is not the once acclaimed anti-poverty silver bullet. Three of the most significant criticisms of microfinance that the domains of popular news media, practitioners, and academia have put forward are the following: some MFIs are profiting greatly from lending to impoverished clients, the unjust profiting of MFIs can lead borrowers to stop repaying their loans, and it is unclear whether microfinance truly succeeds in lifting people out of poverty. The titles of these recent news articles encapsulate these major microfinance problems that have been identified: "Banks making big profits from tiny loans,"<sup>20</sup> "India microcredit sector faces collapse from defaults,"<sup>21</sup> and "Microcredit not the 'silver bullet' for poverty."<sup>22</sup> There is still little to no consensus among academics regarding the impact of microfinance, although there are a slowly growing number of studies that attempt to scientifically estimate the effects on clients' lives. Dean Karlan, a Yale professor of Economics and one of the most prominent microfinance researchers, summarizes

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<sup>20</sup> MacFarquhar, Neil. "Banks making big profits from tiny loans." New York Times 13 April 2010.

<sup>21</sup> Bajaj and Polgreen. "India microcredit faces collapse from defaults." New York Times 17 Nov. 2010.

<sup>22</sup> Morris, Madeline. "Microcredit not the 'silver bullet' for poverty." BBC News 24 Jan. 2011.

microfinance's impacts: "The lesson is simply that it didn't save the world. It is not the single transformative tool that proponents have been selling it as, but there are positive benefits."<sup>23</sup>

In 2005, the MIT Poverty Action Lab carried out the first study to conduct a randomized evaluation of the impact of introducing microcredit in a new market.<sup>24</sup> The researchers selected MFI branches to open in half of the slums in one Indian region, while the other half did not receive the intervention. The product that was offered was the standard group banking loan (but not integrated with social services) in which groups comprised of ten women each received loans and were jointly responsible for the loans of their group at large. The results revealed that the introduction of microcredit has both varied and noteworthy effects on the creation and expansion of businesses, and on the character of household expenditures. While the study showed that microcredit can enable households to borrow money and invest in businesses, it showed no impact on the client's social situation in terms of characteristics such as health, education, or women's decision-making in the short term (i.e., after fifteen to eighteen months served by an MFI).<sup>25</sup>

A small body of literature has pursued the question of whether microfinance has the potential to serve as an effective strategy to achieve the Millennium Development Goals (MDGs). In a 2003 paper, researchers from the Consultative Group to Assist the Poor (CGAP) argued that microfinance plays an important role in meeting the MDGs, principally by: eradicating poverty, promoting children's education, improving health

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<sup>23</sup> Karlan was quoted in the 2010 MacFarquhar article.

<sup>24</sup> Banerjee, Abhijit. Et. al. 2010. "The miracle of microfinance: Evidence from a randomized evaluation." MIT Poverty Action Lab.

<sup>25</sup> Banerjee. Et. al. 2010

outcomes for women and children, and empowering women in society.<sup>26</sup> The authors argued that determinants of an individual's standard of living such as employment, education, and healthcare actually depend on a population's access to financial services; these determinants can only be improved when households have increased control over financial resources. While this study revealed that the delivery of financial services can be relied upon as a tool to fight poverty while at the same time remaining sustainable and scalable for organizations, evidence from my study also suggests that it is possible for MFIs to make even more progress toward the MDGs by providing their clients with non-financial services in addition to financial services.

### **Literature on Organizations**

Undertaking a model of integrated microfinance is no simple task, as lenders face the difficult choice of whether to attempt specialization or service integration. This dilemma is not specific to microfinance; all organizations face the decision of hybridization versus specialization, and there is a body of literature in the field of organizational ecology that can help inform the practice of microfinance.

This field tends to provide evidence for the viewpoint that specialists are more likely to succeed than generalists, partially because audiences tend to prefer specialists. Hannan, Et. al. (2009) explore the concept of entities in markets being members of multiple categories, and they find that producers participating in multiple categories tend to be ignored and devalued.<sup>27</sup> Hannan explains the process of an audience considering an organization that falls into multiple-category memberships; people will often assume that

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<sup>26</sup> Littlefield, Elizabeth. Et. al. 2003. "Is microfinance an effective strategy to reach the millennium development goals?" CGAP.

<sup>27</sup>Hannan, Michael. Et. al. 2009. "Multiple Category Memberships in Markets." *American Sociological Review*, Vol. 74 (February: 150-169). p. 2.

this varied memberships requires “different combinations of abilities,” suggesting that there is a lack of expertise in each category. While this may not even be accurate, it will still hurt entities such as MFIs to be viewed by their audience as lacking focus in the attempt to appeal to a broad audience. While Hannan, Et. al. ground their theories in empirical examples such as the film industry and peer-to-peer lending, these theories may not be fully applicable to the example of MFIs. Even so, it illuminates why integrated MFIs might be perceived as being unfocused and naively attempting to do too many things.

Another area of organizational theory that differs slightly from the debate between specialization and generalization is that of hybridity; this refers to organizations that mix elements, value systems, and actions of various sectors of society, which tends to lead to tensions.<sup>28</sup> These tensions can bring about both positive and negative effects for the organization and its customers, simultaneously providing opportunities and posing risks.<sup>29</sup> Hybrid usually means that an organizational form mixes public, private, and societal elements in the provision of services; I apply the label of “hybrid” to integrated MFIs because these organizations are in a way acting as private financial service providers while also attempting to deliver services that are often provided by non-financial NGOs or public sector institutions. Thus, while integrated MFIs do not literally fall into multiple legal categories (they are either non-profit or for-profit organizations), the framework of hybridity can be applied to them because they delve into a diversity of

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<sup>28</sup> Karré, Philip Marcel. 2011. *Heads and Tails: Both Sides of the Coin. An Analysis of Hybrid Organizations in the Dutch Waste Management Sector*. Eleven International Publishing.

<sup>29</sup> Hybrid Organizations, Phillip Karré: <http://www.hybridorganizations.com/>, accessed May, 2011.

services. Karré writes that we still know very little about the effects of hybridity because of the dichotomous perspective with which we tend to approach these organizations. The dichotomous approach is narrow because it allows organizations to belong only to the market, to the state, or to society (not a mix of these), when in reality, there are complex relationships between these different entities, especially when it comes to the field of development.<sup>30</sup> This paradigm of having a uniform approach to organizational form is limiting in the context of development and microfinance because it can make the organizations that choose to include non-traditional services seem misguided, without questioning whether hybridity is actually capitalizing on opportunities to provide value-added microfinance. The dichotomous perspective also perpetuates the notion that only development and government organizations provide social services, while only banks provide financial services, which does not seem to align with where the future of development is headed.

### **Literature on Integrated Microfinance**

There is a small but growing body of literature that specifically addresses integrated microfinance, and there appears to be growing awareness regarding the importance of including non-financial services in order to more holistically affect the lives of impoverished people. The main knowledge gap in this field is the lack of studies that can concretely determine whether adding services such as training, empowerment, and health interventions improves the likelihood of benefiting clients and also exceeds costs (spent by donors and organizations). In order to more effectively advocate for the integrated approach, it is necessary for academics to conduct rigorous studies that

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<sup>30</sup> Karré, 2011.

quantitatively and qualitatively assess the benefits experienced by clients and organizations involved with integrated non-purely financial microfinance, as well as compare this to the experiences with purely financial microfinance.

Before studying integrated MFIs specifically, it is valuable to examine how prominent development theories can shed light on this relatively unexplored field. Mixing education and health care into the loan process can be viewed under the lens of theories that believe that educating poor people (especially women) is a human capital investment that will make them more productive and generally successful in the long run.<sup>31</sup> This notion partially derives from the field of academics studying the relationship between gender, education, and development, which often views an investment in education for women as a poverty reduction strategy that can enhance the skills and productivity of poor households and create a better future for their children.<sup>32</sup> Another way to view the provision of education under the umbrella of an MFI is the women's rights and gender equality perspective. Because so many girls and women in developing countries do not receive the same levels of formal education as their male counterparts, integrated MFIs are helping adult women continue their educations, which may have been cut off before or after high school.<sup>33</sup>

While the goal of reaching the world's poorest women has always been a prominent priority for the field of microfinance, promoting women's empowerment through microfinance has now become a common goal, and some MFIs even incorporate

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<sup>31</sup> Nussbaum, Martha. 2000. *Women and Human Development: The Capabilities Approach*. Cambridge: Cambridge University Press.

<sup>32</sup> Oxaal, Zoe. 1997. "Education and poverty: A gender analysis report." Gender Equality Unit, Swedish International Development Cooperation Agency.

<sup>33</sup> Nussbaum, Martha. 2003. "Women's Education: A Global Challenge." *Signs: Journal of Women in Culture and Society*, 29: 325-355.

it into their central mission. The Microcredit Summit Campaign, a major microfinance umbrella organization, holds the four priorities of “reaching the poorest, empowering women, building financial self-sufficiency, and ensuring social impact.”<sup>34</sup> This focus on the connection between empowering women and delivering financial services stems from the trend of poverty alleviation initiatives targeting women, which became a major strategy in the 1990s for a variety of reasons. Many practitioners believe that simply giving a loan to women is empowering because it shows faith in the clients’ ability to create a better life; poor women are often very marginalized in their societies and do not receive this support elsewhere. In addition, microfinance is seen as a gateway to empowerment because if it has a strategic gender focus, it has the potential to “enable women to challenge and change gender inequalities at all levels.”<sup>35</sup> My field research also suggests that adding a gender focus into a lending program can be preferable to delivering gender and empowerment training in the more conventional manner, which is having an organization that is fully devoted to the education of women and does not provide financial incentive to participate. In addition to having a microfinance program focused on gender, another way to promote the empowerment of clients is to innovate new products and services that enable women to benefit more from the loan process.

While empowerment may be a buzz term making MFIs look good and it is sometimes grounded in reality, it is important to acknowledge that empowerment is not an inevitable outcome of microfinance. In fact, microfinance has the potential to disempower clients because of the rigid product design that is not necessarily tailored to

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<sup>34</sup> The Microcredit Summit Campaign: <http://www.microcreditsummit.org/>, accessed May, 2011.

<sup>35</sup> Sustainable Microfinance for Women’s Empowerment: <http://www.genfinance.info/>, accessed May, 2011.

women's economic activities, as well as an intense focus on financial sustainability which can enhance the negative impacts of debt.<sup>36</sup> In my opinion, integrated microfinance is more likely to be empowering for clients because the extra services address a wider range of people's needs and enable them more fully to improve their lives.

A human development theory that can be applied well to microfinance is the capability approach, originally established by Amartya Sen, which views the goal of development to be promoting and expanding valuable capabilities in people. We can also use Martha Nussbaum's adaptation of the capability approach to assess integrated microfinance's potential effects on expanding human capabilities.<sup>37</sup> Microfinance is ideally a good avenue for expanding clients' capabilities, but it is not necessarily a given that this will occur, as literature regarding the effects of microfinance reveals. Integrating culturally relevant social services alongside financial services increases the likelihood of human development occurring; education and training can help clients become more knowledgeable about useful topics and gain skills, health care can make clients healthier and thus more productive people, and financial services can make clients more economically capable.

From a less theoretical standpoint, literature on financial literacy shows that being knowledgeable about one's own financial opportunities allows one to be more responsible and use the financial services to their fullest potential. Thus when financial literacy is included in microfinance training sessions, it helps a client gain more from the use of the loan and feel empowered by gaining an understanding of the terms of the loan,

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<sup>36</sup> Sustainable Microfinance for Women's Empowerment: <http://www.genfinance.info/>, accessed May, 2011.

<sup>37</sup> Nussbaum, 2000.

while also potentially helping the lending organization because the educated clients will be more likely to effectively repay loans. This education can also help clients manage their business finances more effectively, as some may never have methodically assessed their pricing structure, income, or costs before.

In addition to the value of financial and entrepreneurship education, microfinance stakeholders are becoming more aware of the concrete values of health education. Despite being able to access necessary financial services, many microfinance clients still face regular health issues that can prevent the movement out of the cycle of poverty. The Microcredit Summit Campaign is currently running a project entitled “Financing Healthier Lives,” focusing on how integrating microfinance and health education “can create a synergistic effect between the two, helping the poor to protect against and cope with health and financial shocks, seize economic opportunities, meet life-cycle needs and build assets.”<sup>38</sup>

While research that focuses on the effects of integrated microfinance and measures the marginal impact of non-financial services is relatively rare,<sup>39</sup> the work that has been done shows a promising confirmation of the positive effects of integrated MFIs. Institutions like Freedom from Hunger and Innovations for Poverty Action (IPA) have orchestrated several useful studies. Partnering with Freedom From Hunger, the Microcredit Summit Campaign recently piloted a project in Southern India in which in-country trainers trained one hundred MFI field workers to deliver health lessons on HIV/AIDS, management of childhood illnesses, and women’s health to 15,657 women in

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<sup>38</sup> The Microcredit Summit Campaign website: [www.microcreditsummit.org/financing\\_healthier\\_lives/details/fhl\\_progress/](http://www.microcreditsummit.org/financing_healthier_lives/details/fhl_progress/), accessed May, 2011.

<sup>39</sup> Karlan and Valdivia, 2006.

credit groups. According to the Microcredit Summit Campaign, the results of the health lesson program reveal that the weekly trainings resulted in an increase of life-saving health knowledge for clients and their families. Of course, research has shown that increased knowledge does not always translate into altered practices, but it is always an important first step. The pilot study also revealed that the project is self-sustainable because MFIs are willing and able to pay for staff trainings that expand their client services and improve client health.<sup>40</sup> This brings up the significant issue that not just any MFI can deliver training, education, and healthcare to clients; their staff must first receive training in order for it to have a chance at being transformative for recipients. At the same time, not all MFIs have the means of paying for outside trainers, when they face so much pressure to be internally financially sustainable. This is precisely why MFIs like Pro Mujer charge their clients a small fee for integrated services.

Led by Dean Karlan and Martin Valdivia respectively, FFH and IPA conducted a joint impact study in 2006, in which they used a randomized control design to examine the MFI Finca-Peru, and they asked the question of whether it is possible to teach entrepreneurship skills to people.<sup>41</sup> They compared clients who received only credit with those who received financial services and FFH's business education on topics such as how to improve business planning, increase sales, and market products. The results showed that recipients of both credit and education had greater business knowledge, higher business revenues, and a higher propensity of mothers to look favorably upon the possibility of providing their daughters with an education than other clients. From the

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<sup>40</sup> The Microcredit Summit Campaign website: [www.microcreditsummit.org/financing\\_healthier\\_lives/details/fhl\\_progress/](http://www.microcreditsummit.org/financing_healthier_lives/details/fhl_progress/), accessed May, 2011.

<sup>41</sup> Karlan and Valdivia, 2006.

perspective of the MFI's financial well-being, the results showed higher repayment and retention rates among clients provided with non-financial in addition to financial services. Because such clients improved their businesses, it seems only fitting that they were able to repay more reliably. And because, according to the study, such clients valued the training they received, they developed a feeling of loyalty to the institution, which may have contributed to their higher rates of success. As a result of the success of this group of clients, this culminated in improved client retention and repayment rates, and generated increased revenue for the MFI.<sup>42</sup>

The study also found that the introduction of the educational program to the MFI had a marginal cost of approximately six to nine percent.<sup>43</sup> Critics of the integrated model or those who prefer a conservative approach to banking that would look to minimize spending might argue that this marginal cost is frivolous and unnecessary. But proponents of integration would argue that this increased cost is not significant enough to justify rejecting the integrated approach, especially because the increased revenue due to heightened rates of repayment and client retention in the case of Finca-Peru exceeded the six to nine percent cost.

In conducting my field research, I investigated whether the perspective of leaders and staff of MFIs, in terms of how service integration affects both clients and institutional outcomes, matched this study's findings. Several other studies also analyze the varying effects of social services that have been integrated into microfinance programs. Jan, Et. al. (2010) performed an economic evaluation of a combined microfinance and gender training intervention for the prevention of intimate partner violence in rural South

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<sup>42</sup> Karlan and Valdivia, 2006.

<sup>43</sup> Karlan and Valdivia, 2006.

Africa.<sup>44</sup> This study provides evidence for integrated microfinance being an economically viable strategy for organizations. These researchers performed a cost-effectiveness analysis of the intervention, as well as a cluster-randomized trial. Assessing the cost-effectiveness of integrated microfinance programs is very useful, especially in terms of providing evidence to the donor and microfinance community that the integrated approach is not only socially preferable in many ways, but it can be financially viable. The study's findings suggest that the integrated credit and education approach was cost-effective in both the trial and scale-up periods of the intervention.

The same Karlan and Valdivia paper that demonstrates positive effects of integrated MFIs also exposes some of the main critiques of service integration: some see a risk in having credit officers attempt to simultaneously be teachers of business skills, health, and nutrition, because it could lead to a loss of focus on the financial activities, such as lending and saving, which are often viewed as the most essential components of microfinance.<sup>45</sup> Another potential risk the authors explain is that providing business advice could lead to the borrower perceiving the lender as partially responsible for the success or failure of their business, which could cause higher default rates.

The combining of social and financial services is a more complex system than has been traditionally pursued by MFIs that rely solely on basic credit products. In addition to the complexities of the service-integrated as compared to the simpler uniform approach to microfinance, one of the primary factors deterring MFIs from taking the integrated approach is the trend towards a growing commercialization of MFIs and increased

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<sup>44</sup> Jan, Stephen, Et. al. 2010. "Economic evaluation of a combined microfinance and gender training intervention for the prevention of intimate partner violence in rural South Africa." *Health Policy and Planning Journal*.

<sup>45</sup> Karlan and Valdivia, 2006.

pressure to gain profit in microfinance. As profit becomes the main objective of an MFI, organizational leaders sometimes become less inclined to engage in activities that are not intended for the sole purpose of increasing revenue. Canales writes,

“As NGOs, MFIs initially could rely only on donors –and retained earnings if available—to fund their growth (Marulanda and Otero 2005). This generated a dual pressure –from their need to fund their own growth and their dependence on donors—to adhere to strict norms of efficiency and profitability with a narrower focus on microcredit, the most profitable of their services (Dugan and Goodwin-Groen 2005).”<sup>46</sup>

Because micro-loans are the most profitable product that MFIs offer, they are being pressured into taking a narrow approach and leaving out non-credit products. Canales’s discussion of the additional pressures for MFIs to “install complex accounting and managerial systems” also explains why integrated microfinance, which has a less clear accounting system because of the costs coming from many different areas of the organization, would be difficult to justify in this climate.<sup>47</sup> The increased activity of international organizations that track MFIs, in addition to the pressures to “conform to international standards and best practices” also makes integrated microfinance a challenge because standardizing the delivery of non-credit services like education and healthcare is difficult. Overall, these pressures to be profitable, attract investors, and conform to efficient standards do make it harder for current practitioners of the integrated approach to develop well-functioning organization structures, and may discouraging newly formed MFIs from adopting service integration as an approach to microfinance. Nonetheless, the interviews I conducted throughout the course of this study indicate that a

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<sup>46</sup> Canales, 2010.

<sup>47</sup> Morduch and Armendariz de Aghion. 2005. *The Economics of Microfinance*. Cambridge, MA: The MIT Press.

strong enough social mandate and organizational stability make the pursuit of a service integrated approach worthwhile as a means to profit and for the improvement of the lives of clients. When I asked Carmen Velasco, the founder and director of Pro Mujer International if it was possible for Pro Mujer to ever convert to a publicly traded company she said:

“Yes, but I think our mission is so strong that even if we come to be regulated and commercial, we’ve proven for twenty years in doing microfinance, the bylaws will be so clearly stated that no one will be making money out of our clients in Pro Mujer. We don’t want to squeeze the poor, so that’s very clear in our mission. Even though because of regulation we have to turn ourselves into a profit entity, its not going to be profit maximizing; its going to be a developmental maximizing entity, so we assure the return is in the clients, not in the stockholders.”<sup>48</sup>

Canales’s discussion about industry pressures are echoed by Battilana and Dorado in their recent paper, “Building sustainable hybrid organizations.”<sup>49</sup> These authors discuss how in the early 1990s when many microfinance NGOs began to experience an increase in the demand for financial services, they decided that the only way to satisfy this demand was to “spin off commercial microfinance organizations.” They write:

“These new organizations combined two previously separate logics: a *development* logic that guided their mission to help the poor, and a *banking* logic that required profits sufficient to support ongoing operations and fulfill fiduciary obligations.... The pioneering commercial microfinance organizations thus faced the double challenge of having to survive as new ventures while striking a delicate balance between the banking and development logics they combined, and avoiding mission drift.”<sup>50</sup>

Fisher and Sriram also discuss this issue in their 2002 book Beyond Micro-Credit. They have an even more direct criticism and suggestion, writing,

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<sup>48</sup> Interview with Carmen Velasco, Pro Mujer International, 7/27/09.

<sup>49</sup> Battilana and Dorado. 2009. “Building sustainable hybrid organizations: the case commercial microfinance organizations.”

<sup>50</sup> Battilana and Dorado, 2009.

“The industry has become dominated by a techno-managerial perspective, with a large number of technical manuals and courses on how to manage micro-financial services and sustainability, and how to achieve outreach. In the process, the development impetus which first gave rise to micro-finance is often lost (except in the narrowest sense of outreach to poor people.) It is time to put development back into the provision of micro-financial service, and for this we need to go beyond micro-credit.”<sup>51</sup>

It is precisely because of the fact that so many MFIs function under the dual aims of banking and development that I arrived at my central supposition that microfinance should seek the balance between financial sustainability and social impact. My findings suggest that the balance is possible and that a tradeoff is not inevitable, although some of my informants argue otherwise.

### ***Project Methodology***

The original objective of my research was to obtain a general picture of the microfinance landscapes in the neighboring countries of Peru and Bolivia, and to discover what the prevalent approaches to service delivery were in each nation. I intended to collect qualitative management perspectives on the relationship between financial sustainability and social impact, based on whether an MFI was offering purely financial services or a mix of financial and non-financial services. I anticipated that after analyzing all of the data collected, I would be able to identify whether one particular microfinance service model, organizational experience, or theoretical approach to microfinance appeared to be more effective than most others. Once armed with the discovery of the most effective approach to microfinance, I intended to offer guidance to future practitioners of microfinance based on my findings.

To conduct the field research for this project, I spent two and a half months in Peru and Bolivia during the summer of 2009. The project’s scope required a sample size

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<sup>51</sup> Fisher and Sriram, 2002.

that was limited in relation to the entire market. In order to fittingly represent the microfinance sectors of each nation as a whole and ensure that I would encounter a variety of service delivery approaches, I chose specific MFIs in different geographic locations using purposive sampling. I selected a mix of for-profit MFIs that are regulated by banking authorities,<sup>52</sup> and unregulated non-profit MFIs with Non-Governmental Organization (NGO) status.<sup>53</sup> It should be noted that this project gives NGOs a disproportionate amount of attention in relation to their actual role in the entire sector. My decision to do so was a result of prior knowledge that NGOs were the primary entities conducting integrated microfinance, and that integration deserved attention as an essential innovation to consider as an approach to service delivery.

I chose to survey a wide variety of industry stakeholders because my goal was to ‘place in conversation’ the microfinance leaders’ opinions on the core subjects of the type of services being offered under the large umbrella of “microfinance,” and the relationship between financial sustainability and social impact in MFIs. In order to gain access to the various MFIs in my study, I used snowball and convenience sampling; my beginning field contacts such as the Peruvian microfinance umbrella network COPEME helped put me in contact with the leaders of other Peruvian organizations. In Bolivia, I generally accessed MFIs through connections I had with Americans working in the sector. My position as a Stanford student researcher proved beneficial to me; people were generally very accommodating and willing to assist me in my project, which I presume was

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<sup>52</sup> The for-profit category includes non-bank financial institutions (NBFI), commercial banks that specialize in microfinance, and microfinance departments of full-service banks. (MicroRate)

<sup>53</sup> In addition to NGOs, the non-profit category also includes credit unions and other financial cooperatives, and state-owned development and postal savings banks.

because I was traveling alone and required little of their time. In total, I visited fourteen MFIs (I conducted interviews with thirty-one MFI managers and employees), three institutions providing external support and funding to MFIs, four research institutions, and one microfinance rating agency (see appendix for list of locations, organizations, and interviewees included in my field research).

The MFI employees I interviewed held a variety of positions, from Executive Director to Director of Product Development. These semi-structured interviews lasted from thirty to ninety minutes. I included a wide range of questions in my interviews as opposed to focusing them solely on my primary research questions, and potentially biasing the outcome of the interview. In order to get some level of comparability, I asked the same set of questions to every type of interviewee (i.e. All MFI leadership was asked the same series of questions, and all clients I spoke with were asked the same set of questions). Topics covered in interviews with MFI executives included their employment history in the microfinance field, their general perceptions about their experience in this particular organization, their organization's mission, target population, the organizational model and the specific products and services offered, and the interviewee's opinions on the relationship between financial sustainability and social impact in their organization. Of course, I tailored my set of basic questions according to the specific interviewee (i.e. I posed slightly different questions to the director versus the manager of product development versus the loan officer).

I also visited several of the MFIs' client centers, conducted participant observation of loan repayment meetings and group education modules, and shadowed several loan officers during their daily routines of visiting the homes or work places of

clients. In addition to spending between one and five days with any single organization and doing interviews and field visits, I gathered information about microfinance issues and the specific MFIs in my study from MFI literature (e.g., organization annual reports) and external sources (e.g., rating agency reports and industry discussions). From these supplementary sources I integrated quantitative data into my analysis and was able to verify or reject claims by interviewees about the financial and social performance of MFIs.

I began my research trip in Lima, Peru, as the capital city is often a good place to gain a background and context to the country. Many of Peru's MFIs have their headquarters in Lima, so I arranged to have several interviews with the top managers of a variety of MFIs. Lima also contains many of the best universities, research institutes, and development agencies in Peru, which I included in my study as a significant external perspective on microfinance. In Lima, the MFIs included in my study were: the NGO Finca-Peru, the NGO ADRA Peru, the NGO Prisma, and the for-profit EDPYME Credivisión. The second research location was La Paz, Bolivia, which I chose because I wanted to see a direct comparison between the microfinance markets in the two country's capital cities. The MFIs included in my study in La Paz were the bank BancoSol, the bank Fie, the NGO Pro Mujer Bolivia, the umbrella NGO Pro Mujer International, and the unregulated Non-Bank Financial Institution Sartawi. The third location for the study was the city of Cochabamba, Bolivia, as it provided me with the opportunity to visit several MFI's regional branches and view their work in action in more rural areas. The Cochabamba MFIs included in my study were again Pro Mujer Bolivia, Sartawi, and the NGO AgroCapital. After Cochabamba, I returned to Peru and visited the city of Puno,

which was significant because it contains a very active microfinance sector despite its small size. In Puno, the MFIs included in my study were Pro Mujer Peru, the regulated Non-Bank Financial Institution CRAC Los Andes, and the NGO Prisma. The field research ended in Cusco and the Sacred Valley of Peru, where I studied the NGO Asociación Arariwa.

While I was able to visit a wide range of organizations, the time I spent with individual institutions was limited, and the duration of my onsite visit with a specific organization as a researcher generally depended on whether I had good personal connections. Out of all the organizations included in my research, I have the most in-depth study of Pro Mujer because I was able to learn about them on many levels, from the international network to the individual country branches and to the regional branches. I lacked this same privilege and access with many other MFIs; generally, I conducted interviews of approximately an hour in length with several executives, and then conducting approximately two hours of participant observation, as well as speaking with other staff such as loan officers. A comparative study with more time and resources would ideally visit each MFI for an equal, and longer amount of time than I was able to, although it is possible to learn a lot from talking with multiple parties in an organization, as I often did.

After collecting my field data, I returned home to the U.S., and transcribed my interview recordings. As nearly all of my interviews were in Spanish, I transcribed and translated interviews, sometimes with the help of an assistant. I then used my interview transcripts and field notes to do open coding; I organized my codes by major theme areas that emerged, and these became the sub-sections of my research findings section of this

paper. I also continued to learn more about my topic by conducting interviews with microfinance experts when possible, attending microfinance conferences, and taking a Stanford course in microfinance. Finally, I conducted a supplementary literature review and solidified my argument based on my findings and the literature. The literature review was very interesting because it was an ongoing process of surveying trends in the microfinance industry over the course of several years. Thus, I was able to witness the evolution of common themes, as microfinance is a rather fast-moving field. When I began conceiving of this project in October of 2008, the topic of integration was not very discussed amongst microfinance academics and practitioners. Three years later, it has noticeably grown into an approach that is more widely practiced, studied, and considered as a viable approach to microfinance.

Overall, my research methodology was effective in helping me gain the varied perspectives of people who have been deeply immersed in the field of both Latin American and international microfinance. With more time and resources, I would have supplemented my management perspectives with more client interviews and potentially surveys regarding client experiences with integrated versus non-integrated MFIs. In addition, I would have created a more representative body of MFIs to include in my study, as I was unable to see very many purely financial MFIs. My focus on integrated microfinance meant that I sought to gain a lot of information about the few MFIs that did practice this approach. To truly answer the question of which approach is best for clients, an extended research study using randomized control trials would be necessary.

### ***Research Findings: Key Trends in Peruvian and Bolivian Microfinance***

Due to the fact that my interviews with microfinance leaders covered a very wide range of topics, I will first present research findings that give the reader a broad picture of the microfinance markets in Peru and Bolivia, before narrowing down on my specific question of which service model best helps MFIs achieve a balance of mission accomplishment and financial performance. The field research revealed a wide range of organizational regulatory frameworks, missions, target populations, types of services offered, and overall microfinance methodology in Peruvian and Bolivian MFIs.

### **MFI Competition**

Perhaps the most apparent trend in Peru and Bolivia was the saturation of urban microfinance markets. I was surprised to see multiple MFI branches in many areas of Lima and La Paz and even in some of the smaller cities. The close presence of so many MFIs meant that competition was a prevalent theme my interviewees discussed in terms of facing challenges. All MFIs were dealing with how to distinguish themselves and draw in clients in the face of so much competition. I found several effects of this crowding of the urban microfinance markets. One effect was low-income entrepreneurs becoming clients of more than one, and sometimes even many, MFIs; my interviewees spoke about their fear of clients becoming over-indebted, and some mentioned the need for improved national systems to keep track of potential clients' financial histories and ensure that they will not be accepted as clients if they demonstrate over-indebtedness. A second effect of competition and over-crowding was that various MFIs were now considering expanding into peri-urban and rural areas. Even though it becomes significantly more costly for MFIs to maintain rural operations, some organizations viewed rural expansion as worth it to be in a less crowded market (e.g. Sartawi, AgroCapital, Pro Mujer). A third result of

intense competition that my interviews demonstrated was that MFI management was having to re-strategize their approach in a way that would highlight characteristics that distinguished their organization from others, in order to continue attracting funders and clients.

It is because of this need to differentiate themselves that I believe more MFIs are now leaning towards service integration, and offering products beyond just loans that any organization could do. In my interview with Carmen Velasco, the founder and director of Pro Mujer International (a network of MFIs in five different Latin American countries including Peru and Bolivia), I asked her what she believed was the most competitive thing about her organization. She replied, “It’s the integrated approach. Because the others- the rates, the loan amounts, the methodology, whether its individual loans or not- that can be very easily replicated. If you lower your interest rate, they will lower theirs. If you increase the loan amount, they will increase theirs. What is a real differentiator? Something that you can’t easily copy.”<sup>54</sup> This quote illustrates that service integration can actually help make an MFI more financially viable by improving competitiveness (this will be covered later in the discussion section). Velasco’s statement also shows that Peruvian and Bolivian MFIs can no longer compete with each other as they once could- on the basis of competitive interest rates. Now they must find other “differentiators” to draw clients in and believe in them as a provider.

### **Non-Traditional Microfinance**

This need to stand out may partially explain another trend I encountered, which was that some big banks in Peru and Bolivia are currently beginning to “downscale,”

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<sup>54</sup> Interview with Carmen Velasco, PMI, 7/29/09.

working with sectors and populations with whom they have not traditionally been involved because extremely low-income people had not seemed like a worthwhile investment before. Banks that used to be solely for-profit are now adding microfinance units, such as Peru's MiBanco.<sup>55</sup> One explanation interviewees cited for this downscaling is that commercial MFIs feel an increased need to demonstrate social engagement and social impact results, as international rating agencies are beginning to measure both financial and social performance.<sup>56</sup>

One of my most interesting findings was that even commercial MFIs were beginning to offer non-financial services, which is something they many of them had previously stayed away from. BancoSol, one of the largest and most well known banks in Bolivia, had recently begun a training pilot program for some of its clients. Patricia Rojas, a products and services analyst at BancoSol's central branch in La Paz, explained to me the bank's process of deciding to offer training.<sup>57</sup> BancoSol observed the experience of other banks that offered training courses, and they noticed that the themes for these courses were not always appropriate for the clients. In BancoSol's opinion, the training that other MFIs did was not very productive because the client already has a set way of doing things and they are not going to simply change their business behaviors based on the organization's model that may not be relevant.

Based on these observations, BancoSol decided to try training courses on themes that interested the clients. They began by asking clients in several focus groups what kinds of training they wanted, and found that clients had a need for specialization skills,

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<sup>55</sup> Interview with Carolina Trivelli, IEP, 7/3/09.

<sup>56</sup> Ex: MicroRate's "Social Performance Rating."

<sup>57</sup> Interview with Patricia Rojas, BancoSol, 7/29/09.

such as sewing or making a particular food item. BancoSol had recently begun contracting outside specialists to deliver this skills training, and only the clients who were interested in the training would come. When looking at an MFI's approach to service delivery, it is helpful to examine the motivations and target goals of particular products. In this case, Rojas explained that BancoSol's goal with the new training programs is to maintain and improve the income of the clients, so that the bank will have more solvent clients who repay well, as well as hopefully increase the loyalty of clients. These points about improving client income and creating more reliable and loyal clients for the benefit of the institution resonates closely with the perspectives of other MFI managers who are practicing integrated microfinance. In my opinion, as well as for other researchers who have used it as a case study, BancoSol should be viewed as a true success story.

BancoSol is an MFI that accomplishes the double bottom line because it is reaching an incredible amount of people who are in the lowest income sectors of society, while also providing high quality financial and non-financial services.<sup>58</sup> In a 1996 paper about the challenges that growth plays for MFIs, Vega, Et. al. concluded that BancoSol did not undergo mission drift, despite industry pressure to grow rapidly. It appears that this is still the case, and while even BancoSol could improve in its offering of integrated services and addressing gender issues, it is impractical to expect this bank to go as far as offering healthcare, like Pro Mujer does.

### **Types of MFI Services and Products Offered**

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<sup>58</sup> In 2009, BancoSol had a gross loan portfolio of \$351.8 million, 130,000 active borrowers, and an average loan size of \$2,700: <http://www.mixmarket.org/mfi/bancosol>, accessed May, 2011.

In terms of trends regarding the types of services that were prevalent in Peruvian and Bolivian MFIs, I found that credit and savings deposits were still the primary products associated with microfinance in each sector. To administer loans and savings services, the NGOs tended to use a system of group banking, although some of them (e.g., Pro Mujer Bolivia and Pro Mujer Peru) had also expanded to offer individual loans that clients could access once they demonstrated the prudent completion of several group loan cycles. The group loan product had several different names, such as Solidarity Group or Village Bank, and it generally functioned such that each individual in a group would receive a small loan. All group members were required to guarantee each other's loans. This guarantee served as collateral for the MFI and meant that if one group member was late on payment, the group would not continue to function with the privileges normally afforded to it under the MFI until the other members made up the missing payment amount.

Because MFIs that are legally NGOs are unregulated by a central banking authority, they are not allowed to capture savings deposits from their clients. Only regulated entities can officially take deposits and pay interest on their clients' savings. This is a limitation NGOs face and it is one of the main points that executives in my interviews cited as being an incentive to go through the process of becoming regulated. Taking deposits benefits an MFI in several ways: it attracts clients who want to save in a reliable and official manner, and it is a significant source of revenue for the MFI because, just like any bank, they are able to lend out the savings of clients to other clients and subsequently charge greater interest rates than they pay. But NGOs have found other ways besides taking deposits to help clients save money. Pro Mujer and many other

unregulated entities have adopted mandatory savings programs, in which each time they attend solidarity group repayment meetings, clients are obligated to place a portion of their loan repayment quota in an account that pools all the members' savings together (the money is then usually held by a commercial bank). MFIs have developed a variety of permutations of these saving schemes, such as the ability for group members to choose to save extra money and lend it to members who have a special need. These savings programs generally give clients the option of accessing their individual savings at the end of each loan cycle or continuing to save their money with the organization.

All of the regulated MFIs I studied offer individual loans as their primary product, with interest rates ranging from around twenty-five to fifty percent per year.<sup>59</sup> This appears to be an unusually high interest rate from a North American perspective, in which the U.S. prime interest rate is currently 3.25%, and this leads people to accuse the microfinance industry of charging its poor clients abusive or usurious rates. But in the context of Latin America and many other developing economies, 25%-50% annual interest rate is actually relatively reasonable, especially in comparison to the alternative option of even more expensive informal money lenders. It is also important to realize that financial services in the United States often charge rates that are comparable or higher than microfinance interest rates in the developing world. American consumers with good credit ratings have on average a 15% annual interest rate on their credit cards; this rate can rise to 30% if payments are late, and there are many hidden fees involved in the

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<sup>59</sup> 25-50% is an approximation, not an exact range of the interest rates of all the MFIs in my study.

credit card process.<sup>60</sup> Payday loans, short-term loans that generally serve the poor, charge even higher rates; the annual interest rate for the typical payday loan in the U.S. is 400%, but it can even be higher with some loans.<sup>61</sup> Thus, a 25%-50% annual interest rate for microfinance loans, especially for loans that are combined with additional financial social services, is not usurious and not exploitative of the poor, unless other exploitative practices are occurring.

The nature of small loans anywhere is that interest rates need to be high to return the cost of the loan; an MFI needs to cover the cost of the money it lends, the cost of loan defaults, and transaction costs.<sup>62</sup> According to CGAP, the cost of money and of loan defaults is proportional to the amount lent, while the transaction costs are not proportional to the amount lent. This means that the transaction cost of delivering a very small loan is barely different from the cost of delivering a loan five times as large, so to break even, the MFI needs to charge significant interest. Despite this fact, it is important to acknowledge that MFIs sometimes do overcharge and there has been much controversy about microfinance interest rates among the popular media. While there is no one rule that is established to determine a threshold for usurious lending in microfinance, Mohammed Yunus's belief that an MFI should charge no more than 15% above its break even operating costs is a helpful standard.<sup>63</sup>

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<sup>60</sup> Center for Responsible Lending, <http://www.responsiblelending.org/credit-cards/research-analysis/>, accessed May, 2011.

<sup>61</sup> Center for Responsible Lending: <http://www.responsiblelending.org/payday-lending/>, accessed May, 2011.

<sup>62</sup> Consultative Group to Assist the Poor.

<sup>63</sup> Yunus, Muhammad. 2007. *Creating a World Without Poverty: Social Business and the Future of Capitalism*. PublicAffairs, New York.

The cost of loan defaults is low for most MFIs because the default rate tends to be incredibly low. Pro Mujer Bolivia only has .47% of its portfolio at risk (meaning that loans are over 30 days late), and Pro Mujer Peru has 2.3% at risk.<sup>64</sup> In the case of borrowers in a solidarity group situation who default on loans, the members have already agreed to cover the cost of the missing loan and decide whether they wish to terminate that member from the group or not. If clients are unable to repay their individual loans, collateral such as furniture or a television can actually be taken from their house by the MFI staff. In my experience, loan officers, especially ones who serve rural clients, spend a great deal of time visiting clients and attempting to obtain missing loan quotas.

It is more difficult for clients to qualify for individual loans than for group loans, as individual loans often require the ownership of a house or other item of value. There is a slow yet observable trend towards more individual credit and less group credit in the Peruvian and Bolivian markets, due to the perceived weaknesses in the group model, which makes clients less likely to want to participate in a group model and more inclined to seek individual loans. I also found that it is becoming increasingly common for all types of MFIs to develop financial innovations that extend outside the realm of a loan directly spent on business and expanding capital. Some of these additional financial services include life insurance (that often comes in the form of a small additional payment at every loan repayment), and specialized consumption credit for things like school supplies for the clients' children or household appliances.

### **Client Demographics**

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<sup>64</sup> MixMarket.

I observed a wide range in the kinds of populations MFIs targeted, which was interesting because microfinance has traditionally been conceived of as an intervention that primarily targets low-income women entrepreneurs. Many MFIs in my study still placed women as their priority target population, and these tended to be the NGOs. When asked why their institution chooses women as the target population or why women comprise the majority of their clients, Jose Ramon exemplifies a common MFI executive answer:

“It’s not just because of statistics showing that women are the most marginalized people in society. Generally, they have the least opportunities, the least education, and the least rights, so they have the greatest disadvantage. Be we have also, in all the years that we’ve been working, found that women are the best payers, the most responsible, and they live up to their word.”<sup>65</sup>

One of the most common justifications behind having lending primarily to women is that there is evidence demonstrating that they have extremely high repayment rates, and women, as mothers, have power to alleviate poverty by providing essential resources to their families. Numerous studies show that an additional income for women in developing countries tends to be spent on things like family nutrition and children’s education, rather than on alcohol, which the men tend to prioritize more.<sup>66</sup> Some NGOs also chose to lend primarily to women in order to further their goal of promoting female empowerment, a concept that is not commonly discussed or tolerated in many traditional Latin American societies.

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<sup>65</sup> Interview with Jose Ramon, Finca-Peru, 7/2/09.

<sup>66</sup> Consultative Group to Assist the Poor: Microfinance Gateway.

Due to this philosophy that many integrated NGOs adopt, the lending groups were generally composed of a majority of women, and only a few men.<sup>67</sup> The majority of the MFIs I studied focused on an urban population of people involved in informal sector, small commercial businesses (such as selling food products or clothing in a marketplace). I also encountered some NGOs that instead of targeting women, were focused on specific sectors. Sartawi, AgroCapital, and CRAC Los Andes all geared their services to populations involved in agricultural work, which the microfinance community generally views as high-risk because of the volatility of agricultural production. Most banks, on the other hand, tended to be less discriminating in their target population, as they generally accepted any clients who met their business and collateral requirements.

In my research I also investigated whether there were trends in the types of MFIs that tended to serve certain socioeconomic level of clients. Seeing which MFIs worked with the poorest clients would be an indicator that those MFIs have more of a development and poverty alleviation orientation, while seeing the MFIs that worked with a population of a higher socioeconomic class could indicate that they were more focused on operational goals. It was difficult to obtain quantitative data that matched particular socioeconomic sectors to particular MFI sectors, but my qualitative findings indicate that NGOs tend to target the poorest clients who are involved in microfinance and the regulated entities tend to target a slightly higher socioeconomic bracket. It is important to acknowledge, though, that many microfinance practitioners no longer believe that microfinance is meant for the poorest people in society, because that is a sector that may

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<sup>67</sup> Some MFIs had an explicit policy dictating what percentage of the members of a loan group could be men. I generally found that the men in loan groups participated less actively than women.

need basic social services for everyday survival before they can graduate to being successful loan clients who do not just become over-indebted.<sup>68</sup>

I observed that, in general, MFIs that are NGOs tend to lean towards some model of service integration. The majority of the NGOs in my study offer their clients some form of training or education, while only a small number of regulated entities offer education. Due to the fact that microfinance clients globally tend to be poorly educated and/or illiterate, trainings that at least cover information about the services clients are receiving and the terms of the agreement, in addition to a variety of other educational topics, generally make sense for this population. But it is also worthwhile for MFIs to do what BancoSol did, in examining what kinds of education are useful and wanted by the specific target population. Some MFIs I encountered are oriented primarily around business training to help clients improve general skills such as financial planning, marketing, and collection of revenues, while others teach clients more focused skills such as how to make goods that they can sell. Some MFIs even train clients to make decisions in non-business related aspects of life such as family life, hygiene, nutrition, and maternal and child health.

To deliver the training, loan officers who are employees of the MFI teach short, structured modules to clients at the beginning of loan repayment meetings. I encountered several situations in which directors and managers of an MFI claimed that training modules were delivered to loan groups at every meeting; in contrast to this, my own observations and some discussions with clients revealed that training sessions actually occurred rather unpredictably. There are various possible explanations for the

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<sup>68</sup> Jain, Balbir. 2009. "Microfinance and the poorest." New Delhi: University of Delhi.

inconsistency of training. It is possible that MFIs lack the resources to follow up with every loan officer and ensure that clients are being educated as planned. Another likely explanation is that NGO clients often expressed to me dissatisfaction with the long group meetings, and thus loan officers attempt to shorten the meeting by eliminating the training. Yet it is important to note that from my experience and from several manager interviews, it appears that the reasons that group meetings were frequently too long was because of the need to wait for members to arrive with their payment—not because of the short education modules. In speaking informally with clients, many told me that they enjoyed the group meetings because it was the only time out of the week that they did an activity for themselves. In addition, many clients had also known the other women in their solidarity group for years, and were already a part of the social network formed under MFIs.

Generally poor healthcare statistics of Latin America<sup>69</sup> suggest that a number of MFIs might offer a healthcare component. Yet I found that most MFIs did not emphasize the need to combine credit and healthcare, and only one organization in my study, Pro Mujer, offered direct health care to clients. Combining healthcare and microfinance is still a phenomenon of limited international scope, so I was fortunate to be able to spend a sufficient amount of time gathering primary data on one of the global leaders of this approach: Pro Mujer. It should be noted that the MFI CRECER is the other Bolivian leader in integrated microfinance and takes a similar approach to Pro Mujer, acting as its primary competitor. I was unable to visit CRECER, but did conduct an interview with

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<sup>69</sup> The World Health Organization shows the healthy life expectancy at birth in Peru is only 61 years, and in Bolivia it is 55 years: <http://www.who.int/countries/per/en/>, accessed Dec, 2010.

several of its clients and found similar positive experiences associated with the non-financial services, as I did with many clients in Pro Mujer.

### **A Close Look at *Pro Mujer***

The financial and educational components are essentially the same in Pro Mujer Peru (PMP) and Pro Mujer Bolivia (PMB), but the way in which the two organizations deliver health services does vary. PMB uses the unified approach to integration, running its own medical clinics that offer clients primary health care as well as maternal and childcare. These clinics are located in the same focal centers clients regularly visit to repay individual or group loans and receive training sessions. Clients and their immediate families are able to use the health clinic at their own discretion, with Pro Mujer charging a mandatory payment of sixty cents per month (which is added to the loan quota) to cover costs. In the case of a client requiring secondary health care, PMB offers referrals to specialist organizations. PMP, on the other hand, practices the parallel approach to service integration, establishing partner linkages for all health services rather than providing them in-house. This difference in the health approaches taken by the different Pro Mujer branches is partially explained by the fact that Peru's public sector and health institutions are generally stronger than those in Bolivia, so PMP can trust outside providers to care for clients while PMB has to make up for the gap in the public sector. Other factors Pro Mujer cites as influencing its choices of intervention strategy are: demographic characteristics, the particular health issues women face, funding availability, the competitiveness of the microfinance industry, and client perceptions of health expenses as a cost versus as an investment.<sup>70</sup>

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<sup>70</sup> Berry, John. Et. al. 2006. "Healthy women, healthy business: Comparative study of Pro

This latter point about client perceptions has been important for the evolution of the Bolivian branch; when they began their work, clients were not viewing health as an investment, but as the women gained more experience with the trainings and the mandatory (but small) health fees, they began to value the services of Pro Mujer. PMP took the less direct but also generally successful approach of working with existing health providers to whom to refer Pro Mujer clients and negotiate lower prices for them. Because PMP was organizing such large groups of clients and demonstrating their scale of outreach, they attracted the interest of third-party health care providers. The ensuing economies of scale for the external providers made them willing to provide services to Pro Mujer clients at reduced rates. This example demonstrates how it is possible for MFIs to integrate non-financial services into their offerings (even healthcare, which is a very complex service to manage), while being effective at forming organizational partnerships and achieving scale in operations. I will review the financial viability of this healthcare integrated approach in the discussion section.

Another interesting yet less discussed aspect of Pro Mujer is that generating employment for women is one of the components of its social mission. In my interview with the human resources manager at Pro Mujer International, I learned that many of the women who are currently on staff, often serving as loan officers, were at one point clients themselves. By proving themselves to be responsible clients and fully embracing the Pro Mujer philosophy, some women are able to move their way up into working for the organization that originally provided them with loans and services. A large percentage of

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Mujer's integration of microfinance and health services." Pro Mujer.

their managers are also women (85% in PMB), which represents a solid commitment on behalf of the organization to provide opportunities for women.<sup>71</sup>

Pro Mujer's approach to women's empowerment is also interesting and worth examining to perhaps encourage other MFIs to take on similar practices. Pro Mujer believes that women empowerment is the key to ending poverty and creating a more just society, and they use education as a primary strategy for promoting empowerment.<sup>72</sup> Using the existing structure of the "communal associations" (loan groups), Pro Mujer teaches women about topics that are seldom discussed in society, such as domestic violence, communication skills, and women's rights. When they require more advanced knowledge in topics such as vocational training or legal assistance, Pro Mujer connects clients to external service providers. Within the communal associations, clients have the opportunity to become active leaders, as they elect a board of directors to run the meetings, form a credit committee to approve loan applications, and create small solidarity groups to guarantee each other's loans. Finally, women become empowered and gain self-esteem as they successfully repay loans, access larger amounts of loans, obtain life insurance to protect their families, and save money in accounts. While I have not found specific statistics on this, Pro Mujer claims that many clients become leaders in other community organizations and apply the skills they have gained from integrated

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<sup>71</sup> MixMarket. 2009. Pro Mujer Bolivia. Social Performance Data. <http://www.mixmarket.org/node/3508/data/social-performance-data?print=1>, accessed May, 2011.

<sup>72</sup> Pro Mujer web page about empowerment training: [https://promujer.org/index.tpl?&ng\\_view=40](https://promujer.org/index.tpl?&ng_view=40), accessed May, 2011.

microfinance programs; if this is true, it is indeed a very sustainable phenomenon that has positive effects not only on borrowers, but on their entire communities.<sup>73</sup>

While Pro Mujer's unique approach seems to make the quality of a client's experience markedly higher than at a purely financial MFI and allows the organization to be financially viable, there are of course some aspects that still need improvement. One such area is the proof of added benefit to Pro Mujer clients; there is still a need for data indicating that Pro Mujer clients on average enjoy a higher level of basic health care (and thus health) than their counterparts who are not clients at this MFI. One industry expert I interviewed pointed out that there could be selection bias occurring with Pro Mujer because it is possible that the type of women who become clients are healthier or more knowledgeable in the first place. It is important to acknowledge that the majority of MFIs, regulated ones in particular, may not be able to offer non-financial services to the same extent as an organization like Pro Mujer because they tend to be driven by bottom-line sustainability considerations rather than the double bottom line agenda.

### **The Various Sides of the Group Banking Model**

The literature and my field experiences indicate a variety of positive factors associated with the group banking model in which members guarantee each other's loans. Among the many benefits of group lending are that members often find a community and friendships among the other women and men of their group, they gain leadership experience through holding positions such as group president or treasurer, they can hold each other accountable to personal and financial goals such as making improvements on their businesses, and they are able to access larger amounts of money in each loan cycle. I

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<sup>73</sup> Pro Mujer web page about empowerment training:  
[https://promujer.org/index.tpl?&ng\\_view=40](https://promujer.org/index.tpl?&ng_view=40), accessed May, 2011.

also generally witnessed a great deal of trust among the members of loan groups, illustrated by the fact that it was acceptable for members to come to the meeting and make their case for why they were unable to pay that week's quota, or why they needed a larger quota. But group lending is not a fully rosy picture, as I encountered some of the darker sides of the system in talking with MFI clients.

The story of one Pro Mujer client I interviewed illuminated many things about the group banking model. Mery worked in a marketplace in La Paz selling sweets, and a Pro Mujer loan officer had invited her to form a group of twenty women who all worked in the same market. Mery joined because she wanted a loan to be able to buy more goods to sell in her stall, and she began paying her manageable quota each month. She was enjoying the system, as it seemed to work very smoothly and she also received a health checkup in the Pro Mujer medical clinic every time she came to her group meeting. Included in her monthly payment was also a mandatory savings quota, and small extra cost that covered the healthcare, life insurance, and "school credit" to help her buy school supplies for her children.

At the end of the second payment cycle of Mery's group, three members "ran away" without repaying their loans. These members happened to serve on the group directory board, meaning they had been in positions of power and had accessed the largest amount of loans because they had supposedly been the most responsible members. This put an incredible amount of pressure on the remaining members because everyone had to contribute to covering the loans of the three missing members, and Pro Mujer put a hold on the group, which meant that no one was allowed to access their savings. The loan quotas were too large for everyone to pay back, so the group was discontinued. This

incidence not only made Mery and her husband lose faith in Pro Mujer and MFIs in general, but it had deeper repercussions as well. Mery's business suffered because without loans, she could not purchase more capital. It also affected the couple's ability to obtain loans from other lending institutions because of the poor credit record the incidence had given them.

This anecdote illustrates the real consequences that occur when a member(s) let the communal banking group down. While it can seem harsh, this is how group loans are supposed to work; everyone suffers if the group fails to live up to its obligations, so social pressure and surveillance within the groups generally prevents people from defaulting. While MFIs clearly need to enforce policies like this in order to mitigate their own risk, the case of Mery seemed to have been handled in a flawed way. The loan officer, as the person who ultimately approves the final loan amounts to recipients, created a situation in which the loans of several members were so large that they were unable to be repaid by the entire group. This event suggests that MFI staff and also clients in leadership positions need to take care in controlling loan size, so that group members do not have to experience unduly severe punishment.

Another downside to the group banking model that I frequently encountered when visiting MFIs is that the repayment meetings can feel like a waste of time for clients. The extra time and expense involved in busy clients often waiting for other members to show up to the meeting is not efficient or even worth the loan for some. Clients are often forced to extend their meeting times, waiting for members to appear and pay their quotas. On rare occasions of a client repeatedly not appearing, group members will even go to the missing client's house and simply take things, such as a television. This is an aspect that

makes some clients want to leave the group system and obtain individual loans, but at the same time, they acknowledge that they would be losing the community and the education received from being part of a group. The microfinance community perhaps needs to look more into this issue and share best practices regarding how to incentivize clients to arrive on time so that attending meetings feels like a positive time investment rather than a waste.

A final criticism of the group loan approach is that in NGOs like Pro Mujer and others, many borrowers have been through a huge amount of loan cycles (sometimes twenty). This brings up the question of whether the MFI is truly fulfilling or perhaps impeding its mission of graduating clients to higher and more stable economic sectors. Some portion of microfinance clients should be able to be extremely responsible borrowers in a group setting, move onto individual loans, and then perhaps even move into the formal banking sector; this would indicate a true economic progress. But it is important to question whether clients who have been through countless cycles in the same loan group are obtaining immense benefits from the group's sense of solidarity and access to non-financial services, or whether they are failing to accomplish their full potential.<sup>74</sup>

### **MFI Founding Stories and Missions**

Another trend I observed in talking with stakeholders is that many MFIs have parallel founding stories, beginning as NGOs that did not practice microfinance at all. These entities began with the mission of delivering purely social services such as educational trainings to vulnerable populations, and they only later transitioned to include

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<sup>74</sup> Interview with Michelle Kreger, Kiva, 11/16/09.

credit products and other financial services. One of the main reasons that this cross-over into microfinance occurred was because NGOs found themselves unable to attract enough clients without also offering a financial incentive. Carolina Trivelli, a researcher from the Institute of Peruvian Studies gave the example that it is just the nature of Peruvian society that if an NGO comes to a village and announces that they will hold a training focusing on female empowerment, few women will come.<sup>75</sup> But if the NGO says that they are starting a credit program that also offers a gender component, many women will come. Trivelli believes that many microfinance NGOs only manage to create an attractive offering to their clients and achieve their social mission by having a credit hook. From her perspective, it doesn't matter to these entities whether the credit has a strong social impact; the credit is the component that allows the NGO to obtain clients with whom they can work on issues of gender, empowerment, and train them to be political leaders. Trivelli cites the organization "Manuela Ramos" as a prime example of an NGO/MFI that does not want to be a financial entity at its core. Because they have a central mandate of bringing gender equity, they want to primarily work on the empowerment of women and use credit as one way to increase women's opportunities.

Jose Ramon, the Finca-Peru financial officer I interviewed, illustrates that his organization is also an example of an NGO that works towards their social mandate through microcredit. He says, "Credit, for us, is an instrument to arrive at the women, but we have a very broad and developed training program with diverse themes, such as self esteem, women, family, and health."<sup>76</sup> Thus, many of these institutions came to be financial entities by first seeking to complete their non-financial social mission, but have

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<sup>75</sup> Interview with Carolina Trivelli, IEP, 7/3/09.

<sup>76</sup> Interview with Jose Ramon, Finca-Peru, 7/2/09.

felt pressured to become a part of the finance community in order to compete for clients with other lenders.

Pro Mujer provides an interesting example of an organization whose microfinance component arose not out of trouble attracting clients to its social services, but because clients expressed a desire to advance further. Velasco explained that when she and her co-founder began the organization, they were only giving basic business training and skills to Bolivian women. The women enjoyed the training and were eager to make business plans, but the directors realized they had to obtain funding for the clients to realize their businesses. Finally, Velasco and her co-founder received a USAID donation and were able to begin the credit component of Pro Mujer's operations. These anecdotes demonstrate that many entities that are today microfinance NGOs began with purely developmental focuses, and then gradually moved into the microfinance sector for multiple reasons. Entities founded with a social focus tend to continue implementing the integrated service approach because they believe and have seen in practice that clients need more than loans to substantially improve their lives.

### **MFI Legal Regulation**

My interviews with MFI executives as well as an analysis of contemporary industry literature made it clear to me that both Peru and Bolivia in general are trending towards regulation. My research occurred at an especially interesting moment for the microfinance industry in Bolivia, because the government had recently mandated that all NGOs offering social and financial services become the legal category of a Development Financial Institution (or "Institución Financiera de Desarrollo"), which would be a regulated non-profit. This will cause current NGOs to separate into two entities that are

still connected, but are legally separate: one will become the regulated financial lender that is able to take savings deposits and has to adhere to stricter operational and reporting standards, and the other entity will be an unregulated social service provider.

This transition is currently taking place, and it holds a variety of consequences for the microfinance sector. This primarily affects the MFIs that have integrated financial and social services into their service offerings, and they will undergo some challenges in separating their operations. The regulated branch of Pro Mujer Bolivia, for example, will eventually need to transition to only offering products like micro-loans, savings, and insurance, while their health and education components will technically be administered under another branch. The downside of this legal transition is that it could potentially cause MFIs to lose their original focus on a broad and comprehensive social mission. A positive effect of the transition, though, is that many MFIs will now be able to take savings deposits from their clients, which will allow them to address a larger audience and have a huge source of increased revenue, as was mentioned earlier. This will allow them to more quickly become financially sustainable and self-sufficient, which is something all MFIs eventually strive for (all the MFIs in my study that had not already reached financial sustainability expressed the goal of doing so). Experts are also arguing that an industry-wide regulation of microfinance is necessary to limit harmful practices such as over-charging and aggressive loan collection.<sup>77</sup> Overall, it is still unclear what broad effects the regulation of microfinance sectors will have, but the Peruvian and Bolivian practitioners I studied do not seem to be deterred by this change.

## ***Discussion***

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<sup>77</sup> Karnani, Aneel. 2011. "Microfinance needs regulation." *Stanford Social Innovation Review*, Vol. 9, No. 1.

## **The Case for Service Integration**

My findings cover a broad range of practices among Peruvian and Bolivian MFIs, and it would not make sense to attempt to say which model is objectively preferable. But under the framework of my original question, “What approach to service delivery is most effective in helping an MFI achieve a balance between social impact and financial well-being,” I conclude that the integrated approach- using education, health services, or both, in addition to offering a range of financial services, makes it more likely that an MFI will achieve this sought-after balance. My findings show that the pressures on MFIs to be financially sustainable sometimes help to create organizational efficiency, which is a net benefit to the industry. Carmen Velasco’s statement, “We have to see ourselves as efficient, as responsible, and as using the resources we have in the best way possible to have the largest margin possible to reinvest in our clients”<sup>78</sup> shows that non-purely financial MFIs theoretically need to have as high or higher standards of efficiency as commercial entities in order accomplish ambitious goals of comprehensive improvement to clients’ lives. Others have been lured to microfinance by potential for profit rather than social goals; according to one of my interviewees, “‘Commoditized’ microfinance is when you have a commercial emphasis and you focus on selling your product. The commoditized mission is- I do this because it’s a business and I get money from it.”<sup>79</sup>

But this great potential for profit at low risk sometimes leads to a very narrow focus on bottom-lines that can create abuses in the system.<sup>80</sup> If the goal of microfinance is to help lift people out of poverty, it must be an integrated, collaborative approach,

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<sup>78</sup> Interview with Carmen Velasco, PMI, 7/29/09.

<sup>79</sup> Interview with Reynaldo Marconi, Finrural, 7/24/09.

<sup>80</sup> Interview with Carmen Velasco, PMI, 7/29/09.

involving the public and private sectors. If the focus is entirely on the business end, then there is the risk that the clients will not actually be helped in a sustainable way.

Practitioners on all philosophical ends of the microfinance spectrum must understand that it makes business sense to take care of their clients in a more holistic sense, insuring that the individuals whom they help remain clients for a sustained period of time.

### **The Case Against Service Integration**

Despite my argument that service integration can be a strong method for MFIs to comprehensively improve clients' lives and be financially stable, it is important to acknowledge the arguments against this practice. Service integration is certainly not always high quality, and thus the practice can potentially be a waste of an MFI's resources and a waste of clients' time. One of my interviewees, Michelle Kreger, a microfinance expert and former manager of the Kiva Latin America portfolio, said that the biggest problem she had witnessed with integrated microfinance was that the "wrap around services were more form over substance."<sup>81</sup> She acknowledged that this was not always the case and it is very dependent on how effective a loan officer is, but there are plenty of cases where the inclusion of extra services is a waste of time. Kreger believes that the integrated approach provides some benefits to clients, but sometimes the training is out of context and not useful for group members. In my fieldwork, I experienced some clients who were unenthusiastic about the training component and seemed like they would prefer to simply receive financial services without having to sit through education modules. I also saw how difficult it can be for an organization to create an empowerment or education training that is relevant to all members in a group. Loan groups often contain

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<sup>81</sup> Interview with Michelle Kreger, Kiva, 11/16/09.

clients of all ages, ranging from very young mothers to old women to men. Thus, it is nearly impossible to deliver material that meets all of the clients where they are; the young mothers may need information about reproductive health and child rearing, while the older members might wish to focus on their businesses. Furthermore, entrepreneurship education is always difficult because every group member comes in with a different base knowledge of how to run their business. This all suggests that in order to achieve the double bottom line benefits I am advocating for, MFIs need to do careful investigations into what training topics would be most useful to their client constituency and how to best deliver these services, which includes doing effective training of loan officers and other staff. It is also important to acknowledge that not all supplementary services are effective at changing clients' attitudes or actions, and thus if possible, integrated MFIs should perform regular evaluations of their services.

### **Relationship Between Social Impact and Financial Wellbeing of MFIs**

My interviews demonstrate that the majority of Peruvian and Bolivian microfinance practitioners believe it is possible to strike a balance between an organization's financial well-being and its social impact, while only a small minority of individuals in my study believe that there is an inherent trade-off between the two. Naldi Delgado, the director of Pro Mujer Peru says, "I do not believe there is a conflict. If an entity is efficient, it is going to have self-sustainability. The more efficient and financially sustainable it is, it is going to continue carrying out its activities so it will have an impact. I believe this is important for an entity to first be sustainable because if not, you don't guarantee your permanence."<sup>82</sup> Raul Calle, the director of the Peruvian Caja Rural Los

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<sup>82</sup> Interview with Naldi Delgado, Pro Mujer Peru, 8/19/09.

Andes believes that there is a form of trade-off between financial sustainability and social impact because, “If an MFI wants to be more profitable, it will pay less attention to social impact. You simply cannot maximize *profitability* and have a strong social impact. But it is possible to find the balance of *sustainability* and social impact. That is the path our bank is on now.”<sup>83</sup> A third interviewee, Nadia Alcazar who is an employee of the Bolivian MFI funding organization Fundapro stated,

“I think that every entity has a cycle between sustainability and a great social impact. Initially you have to get sustainable, and you can’t search for both things at the same time- not when you are starting or when you’re at the stage of growth. If there ever comes a time where you are sustainable, you have an obligation to think about how to contribute to the people. So I think it is a process because you can’t demand the entity to take responsibility initially, because it won’t have anything to give. But over time, social impact has to become a part of an entity’s work.”<sup>84</sup>

The fact that nearly every interviewee expressed a positive belief about achieving the balance between sustainability and social mission suggests that it is certainly possible to do so. But perhaps the problem of commercialization is that many MFIs are not actively striving for this balance; Alcazar’s statement demonstrates that it can be easy to justify the need to continue becoming “sustainable,” thereby putting off the need to hold oneself accountable toward a greater social mission.

## **Organizational Benefits to Service Integration**

### **1) Financial Sustainability and Cost Effectiveness**

My primary data suggests and my secondary data confirms that the service integration approach in MFIs can be cost-effective. One way to evaluate cost-effectiveness is to examine an organization’s financial sustainability; if its services are inefficient and overly costly, the MFI will most likely not have reached full

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<sup>83</sup> Interview with Raul Calle, CRAC Los Andes, 8/21/09.

<sup>84</sup> Interview with Nadia Alcazar, Fundapro, 7/28/09.

sustainability. Data from COPEME, a microfinance umbrella organization, shows that every Peruvian integrated organization I studied has reached financial sustainability.<sup>85</sup> Nearly all of the Bolivian MFIs in my study are also financially sustainable, with a small number of exceptions due to the recent financial crisis. Another indicator of financial viability among integrated MFIs may be found by examining financial and social performance ratings produced by an independent agency (MicroRate). If the argument that service integration is not cost effective and financially un-viable were true, it would be expected that integrated MFIs would receive worse financial performance ratings. But MicroRate reports on the institutions in my study show that the NGOs employing service integration have received as good financial performance ratings as their regulated, non-integrated counterparts.<sup>86</sup>

A main reason why the unified approach to integration can be financially sound for MFIs is that the same field agent provides both financial and educational services to clients. When clients come to their regular loan repayment meetings at the center, they also receive educational sessions. This is cost-efficient because the MFI does not have to incur the expenses of training duplicative staff; rather, it can use the same space and resources already available to clients. While it is within reason to expect a qualified staff member to be able to manage both the financial and educational components of the group, organizations should nevertheless work to ensure that their employees possess these dual capabilities. In order for the education to be effective for clients, the loan officer should be well trained in the specific modules as well as in broader educational

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<sup>85</sup> Consortium of Private Organizations to Promote the Development of Small and Micro Enterprises. 2009. "Microfinanzas en el Peru: Reporte financiero de instituciones de microfinanzas."

<sup>86</sup> See MicroRate reports on Peruvian and Bolivian MFIs from the past 5 years.

techniques. Freedom from Hunger claims that the training for the facilitation skills of credit and non-credit learning sessions can be done at minimal extra cost.<sup>87</sup> Even if training does incur increased marginal costs, practitioners claim that these must be weighed against the benefits gained from having staff capable of delivering education and financial transactions in the same session.

As a pioneer of the integrated education and health model, Pro Mujer has been forced to defend itself in the face of criticism from those who question non-specialization and caution against the dangers of failing to reach financial efficiency. To demonstrate that it could have both a social mission and be a good banker, Pro Mujer conducted a cost allocation study of integration models in its three largest organizations: Pro Mujer Nicaragua (PMN), Pro Mujer Bolivia (PMB), and Pro Mujer Peru (PMP).<sup>88</sup> The study ultimately demonstrated that the marginal cost of providing health services was relatively low because overhead costs were shared by all parts of the organization, suggesting that integration can be a relatively inexpensive enterprise. In addition, the study demonstrated that PMP has the lowest costs and the most profitable financial services, while the PMB is the most sustainable because it has been in existence the longest and it can charge fees for its direct health services.

Overall, Pro Mujer's practices illustrate how microfinance can be a sustainable and cost-effective platform for delivering health and education services. Cost allocation showed that the Pro Mujer MFIs receive a significant amount of donations specifically

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<sup>87</sup> Dickey, Joan E, Et. al. 1997. "Cost of education in the Freedom From Hunger version of Credit With Education implementation." Freedom From Hunger. Research Paper Number 6.

<sup>88</sup> Berry, John. Et. al. 2006. "Healthy women, healthy business: Comparative study of Pro Mujer's integration of microfinance and health services." Pro Mujer.

for health services, making the non-financial component of the entity more sustainable than would be expected. Cross-subsidization practices ensure that the funds are generated reliably from the built-in profit engine of interest rates and fees. While Pro Mujer's integrated approach means that it will not be as profitable as big banks, the organization prioritizes sustainability and self-sufficiency over maximizing profitability. Many other microfinance practitioners should take Pro Mujer as an example that business need not compromise its social mission to remain financially viable.

## **2) Differentiation and Competitiveness**

Another important advantage of the integrated approach (as demonstrated in some of my interviews and in supplementary literature) is that integrated services may improve the competitiveness of an MFI, meaning it differentiates the MFI from others and makes it unique among its competitors, as shown in Carmen Velasco's previously cited quote. Christopher Dunford, President of Freedom from Hunger, writes, "In some cases, at least, the education also seems to give these institutions some competitive advantage with clients over microfinance-only institutions."<sup>89</sup> My interview with a manager in Pro Mujer Bolivia also confirmed this idea of improving competitiveness. Luis Calvo said,

"I believe that the social mission of Pro Mujer is what gives our organization a competitive factor. Why? Because many of the rest of the microfinance institutions do not offer you health services, or they do not offer you training services. So the goal for Pro Mujer, in addition to offering high quality financial services, is that the non-financial services will be of such good quality that this is our differentiating competitive factor."<sup>90</sup>

Another reason that service integration can make an MFI more competitive is that socially motivated donors who may value a holistic approach to clients' development

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<sup>89</sup> Dunford, Christopher. 2001.

<sup>90</sup> Interview with Luis Calvo, Pro Mujer Bolivia, 7/20/09.

over one that is financially-specific are attracted to the integrated model.<sup>91</sup> These increased external donations prove beneficial in covering the costs of education and health coverage. Having a competitive advantage over MFI counterparts that only offer financial services is especially significant for MFIs in crowded urban microfinance markets, where clients have to choose among the plethora of other organizations offering savings and credit. The need to have a “competitive edge” is a good thing because it potentially incentivizes MFIs to become more innovative in diversifying their services through a consideration of their target populations’ wider needs.

To broaden the picture out to organizations I did not encounter in my field research, I examine several other organizations practicing integrated service delivery. Fundación ESPOIR is an Ecuadorian NGO that specializes in group banking to women entrepreneurs. Fundación ESPOIR is partner of the online lending platform, kiva.org; Kiva’s description of the organization includes,

“Their key market differentiator versus other micro-credit institutions is their offering of health and financial education to their entrepreneurs. Such topics include setting personal and business goals to understanding reproductive health and nutrition benefits. Their Cuenca office even houses a medical clinic where about 300 entrepreneurs per month receive health services for themselves and their families from the two doctors on staff.”<sup>92</sup>

The fact that Fundación ESPOIR’s offering of health and financial education to their borrowers is viewed as their key market differentiator illustrates that service integration can become a competitive advantage.

### **3) Client Loyalty**

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<sup>91</sup> Berry, John. Et. al. Pro Mujer, 2006.

<sup>92</sup> Kiva web page about Fundación ESPOIR, Ecuador: <http://www.kiva.org/partners/137>, accessed March, 2011.

The third major benefit that I often found integrated MFIs to accrue is increased loyalty and retention of clients. In the experience of the microfinance practitioners I studied, offering clients an extra service such as education on a variety of significant business and life topics creates a more intimate relationship between the MFI and its clients. This observation that clients develop greater ties to the organization and are less likely to leave is in agreement with findings from Karlan's study about Finca-Peru, cited in my literature review. In my interview about BancoSol, Patricia Rojas also demonstrated her belief that the training component of the bank would improve the fidelity of clients: "If you are a client and you have your financial entity that gives you increased opportunities, you're going to feel more trusting and will not be as likely to leave the bank."<sup>93</sup> Various employees of Pro Mujer also reported to me that they have received feedback from clients that they value the additional social services; these services cost clients very little, it is very easy way to obtain health care for one's whole family, the education sessions often help women improve their businesses, and clients develop a faith that the institution is putting care and effort toward their needs.<sup>94</sup>

### **Social Benefits to Service Integration**

#### **1) Client Health**

Several of the organizations in my study offered health education to clients (e.g., Pro Mujer, Finca-Peru, and Arariwa), and Pro Mujer was the only MFI to directly connect clients to healthcare. Pro Mujer has performed thousands of Pap smears on women and given thousands of children vaccinations, thus helping to improve maternal and child health where it has been lacking in Latin America. Anecdotes from my

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<sup>93</sup> Interview with Patricia Rojas, BancoSol, 7/29/09.

<sup>94</sup> Interview with Luis Calvo, Pro Mujer Bolivia, 7/20/09.

interviewees strongly suggest that health training and direct health interventions improve client health. Many Peruvian and Bolivian women struggle to access the public health clinics and do not necessarily trust the medical staff there. When an organization like Pro Mujer places a health clinic directly at the center where women already come to receive microfinance services, it greatly increases the likelihood that women access preventative care for themselves and their families. Despite positive health results in the case of Pro Mujer, one study found that education about child health delivered to microcredit clients in a Peruvian urban center was not effective in improving child health outcomes.<sup>95</sup> This is obviously different from an MFI that directly offers health care, as Pro Mujer does, but it does suggest the need for further inquiry into the benefits of combining education with microcredit. There is a definite need for more rigorous studies controlling for more variables that can help the integrated microfinance community directly assess the impact of health education and health care delivery on actual client well-being.

My findings indicate that health education and direct health care most likely have a positive impact on clients, but are also beneficial to the organization delivering it. Carmen Velasco noted, “Even if you don’t care about the social component of the program of what you do, if you’re clever, you don’t want to kill your clients. You want them to be prosperous, and if it’s not for social reasons, it’s for financial reasons.” This quote effectively summarizes the logic of pursuing client well-being for both social *and* financial reasons.

## **2) Education of Clients**

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<sup>95</sup> Hamad, Rita. Et. al. 2011. “Health education for microcredit clients in Peru: a randomized controlled trial.” *BMC Public Health*, 11:51.

My study did not attempt to gather quantitative evidence on the positive social effects of providing education to microfinance clients, but my field experiences and outside literature do suggest that integrating education into microfinance does benefit clients in a variety of ways. In my interview with Finca-Peru, Jose Ramon explained the process of how clients generally undergo changes in their personal attitude, knowledge, and life circumstances throughout participation in the integrated credit and education program.

“Generally, when people arrive at our organization, they come with a lot of uncertainty about their future. In general, they come with some business experience, but they are lacking in self-esteem, believing in themselves, etc. So what Finca does is in the first months that a client is with them- they teach them to value themselves, especially women because they have to work so hard, and to have a lot of dedication in their work, and to be persistent. With this training, we see that in the beginning, the women have small businesses, and then they grow with their loans, purchasing capital, and little by little, they grow. We also design education on how to be specialists on family themes, and we help with personal growth. And this begins to change the vicious cycle, helping the women be more persistent, have a goal, and improve their lives and their families.”

This of course is anecdotal and not sufficient evidence for proving real effects on clients from education programs. But whether the education is about entrepreneurship, family, self-esteem, or health, many practitioners contend that an education component to microfinance makes logical sense due to the simple fact that the target population of MFIs is widely under-educated and often illiterate. In addition, receiving business education improves a client’s chance of maintaining a successful enterprise, which is of course both beneficial to the client and the MFI. The opportunity to simultaneously access financial products and education that is often very relevant to their life circumstances is very valuable for many clients, a finding is concretely demonstrated in a recent study at a Peruvian MFI not included in my study. Results from this 2007 controlled trial demonstrated that clients had improved health knowledge on issues

related to child health after receiving a health education intervention in their monthly loan groups.<sup>96</sup> The educational attainment of all people, especially of women, has become a significant aim of multiple international bodies and programs (such as UNESCO and the World Bank).<sup>97</sup> Thus, microfinance involving educational components can help supplement the often weak formal school systems in developing countries by educating adults (often women) in a meaningful and practical way.

### **3) Economic Improvement**

The third and main social benefit of integrated microfinance is economic improvement for its recipients. Access to loans allows owners of small and medium enterprises to augment their capital, higher employees, and ideally increase their total earnings, which they can then invest in things such as better food and children's education fees. It can be difficult to measure the added benefit of non-financial services on a client's economic improvement, because it is certainly possible for economic improvement for clients to occur as a result of micro-credit alone, in the absence of social services. In addition to the financial benefits of loans, the education and training components of integrated MFIs may be an important reason why clients experience increased business success, as several of the studies in this paper's literature review indicate. While some clients may be experienced in business, my field observations indicated that prior to the training, many clients lacked knowledge that would help them make essential business improvements such as standardizing and setting goals for the future.

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<sup>96</sup> Hamad, Et. al., 2011.

<sup>97</sup> Vaughan, Rosie. 2010. "Girls and women's education within Unesco and the World Bank, 1945-2000." University of Cambridge.

One piece of evidence that demonstrates the economic improvement of clients in integrated MFIs is the tendency of clients in banking groups to graduate out of their small group loan products, demonstrating financial readiness to access larger individual loan for their businesses. In rare cases, clients have even succeeded in formalizing their informal businesses, requiring them to move beyond the services the NGO and access a formal bank.<sup>98</sup> Another indicator of economic improvement, mentioned by several of my interviewees, was a greater willingness and ability of clients to make improvements in their individual homes.<sup>99</sup> Of course, home improvement does not necessarily signify poverty alleviation, but it is one step towards the betterment of clients' economic lives.

#### **Under What Circumstances Does Microfinance Integration Work?**

Integrated microfinance does not work perfectly in every context, and before MFIs consider this approach, it is important to examine the circumstances and organizational policies that are most conducive to integration's success—Pro Mujer Bolivia's direct health intervention model is very difficult to replicate, which is likely one of the main reasons why more MFIs in my study did not delve into healthcare. But just because healthcare is logistically difficult to carry out does not mean that more MFIs should not consider addressing the holistic needs of clients. More studies are required to determine just how scalable the service integration approach is.

In carrying out integrated microfinance, it is important that the MFI price the service appropriately and charge high enough interest rates to cover some of these extra costs. Integrated microfinance can work well in countries that have consumer protections

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<sup>98</sup> Interview with Luis Calvo, Pro Mujer Bolivia, 7/20/09.

<sup>99</sup> Interview with Jose Ramon, Finca-Peru, 7/2/09.

<sup>99</sup> Interview with Carmen Velasco, PMI, 7/29/09

in the form of interest rate caps, but that have the flexibility to allow the rates required by integrated programs. Integration may not be possible in countries that have rigid regulations with no room for exceptions based on social utility.

The case of Pro Mujer also suggests that integrated microfinance can work well either in circumstances where the country's public services are weak, allowing the MFI to address a widespread need in the population by using the unified approach; or it can work well under circumstances where the country has relatively effective social service provision, allowing the MFI to forge partnerships and alliance with other service providers.

### ***Conclusion***

The global field of microfinance began as a development strategy and many in this field still view the goal of microfinance to be the lifting of loan recipients out of poverty. But due to increased competition and emphasis on profit and even shareholder returns, MFIs may experience mission drift, potentially losing sight of the sector's original mission to serve as a tool with a veritable social function. I have argued that one of the most effective means to maintain both this social mission and financial sustainability is for MFIs to offer a mixture of financial and non-financial services that have been proven to be of value to clients. These types of organizations have shown that the supposed "tradeoff" between the goals of financial well-being (maintaining an organization's financial sustainability) and social well-being (serving the poorest clients and helping them holistically) is not inevitable.

Critics of the integration approach may argue that governments, international aid programs, and non-financial NGOs should bear responsibility for social services while

MFIs should focus solely on being good bankers. But human development and realization of the Millennium Development Goals should not be confined to specific organizations.

We should not ignore the huge potential to leverage the unique capabilities of microfinance institutions to bring about greater social impact than non-financial organizations ever could. Carmen Velasco summarizes the integration strategy, saying,

“It is extremely expensive to cover the overall costs of non-financial programs. But if you piggy-back on the overall costs that you have to incur no matter what if you are a financial institution, (you have to have a general director, a CFO, etc.), you can take advantage of this installed capacity, paying only your direct costs. So it’s a perfect marriage, and it assures that your health and training intervention stays on board together with a sustainable and sometimes profitable microfinance approach.”<sup>vi</sup>

In this report’s defense of the integrated approach, it adds to the literature on microfinance and suggests areas where the field may evolve. It does not suggest that all MFIs should suddenly convert to integrated microfinance or that regulated financial institutions are not valuable. The microfinance industries of Peru and Bolivia and beyond certainly need to have a mix of integrated and non-integrated MFIs. But the international microfinance movement as well as development organizations in general could realize substantial achievements through the careful introduction of a wider array of services in microfinance directed toward improving clients’ lives. Many argue that microfinance is not meeting a large enough proportion of the world’s impoverished population and that the main priority should be expanding the *quantity* of customers reached by MFIs. But a priority just as important should be improving the *quality* of experience that clients receive, so that the positive effects of microfinance can be sustainable. Microfinance has the potential to go from being a helpful tool to a transformative tool when it is approached holistically.

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<http://www.microfinancegateway.org/p/site/m/template.rc/1.26.9183/#6>

<http://www.responsiblelending.org/credit-cards/>

<http://www.responsiblelending.org/payday-lending/>

## *Appendix*

### **Glossary of Microfinance Terms**

CGAP- Consultative Group to Assist the Poor

CRAC- Caja Rural de Ahorro y Credito (Rural Savings and Credit Bank) (for-profit)

EDPYME- Small Business and Microenterprise Development Institution (regulated and for-profit)

IFD- Institución Financiera Desarrollo (financial development institution)- in Bolivia all financial NGOs (i.e. an NGO doing microfinance) are classified as IFD

MFI- Microfinance Institution

NBFI- Non-Bank Financial Institution (for-profit)

NGO- Non-Governmental Organization (non-profit)

### **Bolivia Microfinance Profile**

Total MFIs in Bolivia: 26

Gross loan portfolio USD, 2009: 1.9 billion

Number of active borrowers 2009: 872,655

Average loan balance per borrower USD, 2009: 1,483.9

Deposits USD, 2009: 1.7 billion

Total assets USD, 2009: 2.6 billion

Number of depositors 2009: 1.9 million

Source: <http://www.mixmarket.org/mfi/country/Bolivia>

### **Peru Microfinance Profile**

Total MFIs in Peru: 65

Gross loan portfolio USD, 2009: 5.5 billion

Number of active borrowers 2009: 3.1 million

Average loan balance per borrower USD, 2009: 1,305.3

Deposits USD, 2009: 3.8 billion

Total assets USD, 2009: 6.7 billion

Number of depositors 2009: 2.4 million

Source: <http://mixmarket.org/mfi/country/peru>

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**Organizations Included in my Field Research**

<b>Location</b>	<b>Type of Institution</b>	<b>Type of MFI</b>	<b>Organization</b>	<b>Person/s Interviewed</b>
Lima, Peru	MFI	NGO	Finca-Peru	Director and the Financial Manager.
Lima, Peru	MFI	NGO	ADRA- Peru	Manager of the Microfinance Portfolio
Lima, Peru	MFI	NGO	Prisma	Director and the Head of Social Development
Lima, Peru	MFI	EDPYME	Credivisión	CEO
				Director of Marketing Unit, Manager of Marketing, Manager of Research and Development, Market Research Coordinator, Product Development Coordinator, Directors of Health Services, Loan Officer, and a client
La Paz, Bolivia	MFI	NGO	Pro Mujer Bolivia	Coordinator of Financial Services, Director of Human Resources, and Founder/Director
La Paz, Bolivia	MFI	NGO	Pro Mujer International	Manager of Product Development
La Paz, Bolivia	MFI	Bank	BancoSol	Manager
La Paz, Bolivia	MFI	Bank	Fie Fundación	Director
La Paz, Bolivia	MFI	NBFI	Sartawi	Regional Director
Cochabamba, Bolivia	MFI	NGO	Pro Mujer Bolivia	Regional Director
Cochabamba, Bolivia	MFI	NGO	AgroCapital Fundación	Manager and Loan Officers
Cochabamba, Bolivia	MFI	NBFI	Sartawi	Regional Director and Loan Officers
Puno, Peru	MFI	NGO	Pro Mujer Peru	Director
Puno, Peru	MFI	NGO	Prisma	Branch Director
Puno, Peru	MFI	NBFI	CRAC Los Andes	Director, Business Manager, and Manager of Risk Unit

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Cusco, Peru	MFI	NGO	Asociación Arariwa	Director
La Paz, Bolivia	MFI Rating Agency	NGO	CRECER	Client General Manager/Senior Analyst
Lima, Peru	MFI Funder	n/a	MicroRate	Analyst
La Paz, Bolivia	MFI Umbrella Network	n/a	Fundapro	Consultant
La Paz, Bolivia	MFI Umbrella Network	n/a	Finrural	Director
Lima, Peru	Research Institution	n/a	COPEME Instituto Educación Peruanas Innovations for Poverty Action	Qualification and Supervision Specialist
Lima, Peru	Research Institution	n/a	Universidad Católica Boliviana	Senior Researcher
Cusco, Peru	Research Institution	n/a	Universidad Peruanas	Researcher
La Paz, Bolivia	University	n/a	Universidad Peruanas	Professor
Lima, Peru	University	n/a	Ciencias	Professor