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**Breaking the Rules of
Microfinance to Better End
Poverty and Catalyze Its
Transformational
Dimension: Conversations
with Industry Pioneers to
Explore the Soul of
Microfinance**

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Paper Title

I. INTRODUCTION

The purpose of this paper is to identify the essential elements, or rather the soul, of the microfinance movement over the years as embodied in three organizations located in Africa, Asia and Latin America. I have selected BRAC in Bangladesh, Jamii Bora in Kenya, and Pro Mujer in Latin America because of their breadth, depth and focus on women. These are key characteristics of microfinance when it is used as a means to alleviate poverty by empowering the most powerless and vulnerable human beings. Marginalized populations typically lack knowledge of their human rights and are often denied access to basic health, educational and financial services that are requirements to develop their potential and live lives with dignity. Microfinance offers these populations the financial access, expertise and support they need to thrive.

I selected BRAC for the wide range of financial, health, educational, social development services and social enterprises it offers, and for its global reach. BRAC has operations in Yemen, Afghanistan, Pakistan, Bangladesh, Sierra Leone, Liberia, southern Sudan, Uganda, Tanzania, Sri Lanka, India and Indonesia; and provides technical assistance to FONKOZE in Haiti. It has “crossed not just political borders, but also breached the borders of development orthodoxy, demonstrating that poverty can be pushed back dramatically when tackled directly,” notes Ian Smillie in Freedom from Want, his excellent account of BRAC’s remarkable success.¹ While I was not able to interview Fazle H. Abed for this paper, I had a wealth of material to draw from as much has been written about BRAC and its Founder.²

I selected Jamii Bora in Kenya for its depth of outreach. What began as an initiative formed by 50 street beggars has developed into a multi-service organization that provides not only health and educational services, but is also creating a township where the

¹ Smillie, Ian, Freedom from Want, Kumerian Press, 2009.

² Ashoka Social Entrepreneur Video Series and BRAC 2009 Annual Report.

poorest people can escape from the slums and the related degradation that living in poverty imposes. I had the pleasure of interviewing its founder, Ingrid Munro.

Finally, how could I not choose Pro Mujer in Latin America when as a co-founder I know it so well and am convinced its integrated approach to women's development epitomizes the soul of microfinance? I interviewed both co-founder Carmen Velasco, my dear friend and colleague, and Rosario Perez, Pro Mujer's CEO since 2008, as I thought it important to capture not only the co-founders' mission and values, but also show how Pro Mujer is becoming more rigorously-managed under Rosario's leadership in order to take the organization to the next chapter of its more than 21-year trajectory.

In my discussion of these three organizations, I have sought to portray the Founders' vision and motivation; their approach to microfinance and how they have combined it with other services and programs; their new frontiers for themselves and their organizations; and what they consider to be the challenges and opportunities for the future. I take up the founders in the following order: Ingrid Munro; Carmen Velasco and myself; and Fazle H. Abed, founder of BRAC, a global organization which operates in Asia, Africa and provides technical assistance to FONKOZE in Haiti. My conclusions, based on their work, highlight the soul of the microfinance movement and how it demonstrates that people can be empowered to transform their lives when given the services, support and opportunities that they deserve as citizens of planet earth.'

II. INGRID MUNRO, FOUNDER OF JAMII BORA

A. Vision and Motivation

Ingrid Munro attributes her drive to build a people's movement to her experience working in Sweden's government, where she was trained by the experienced ministers who made Sweden the best welfare state in the world. She says, "I know that if the poor of Sweden could build one of the best welfare states in the world, why shouldn't poor people in other countries be able to do the same?" It was through her work with the government that she became involved with international development initiatives focused

on housing for the very poor. In 1985 she went to Kenya to head a United Nations project for the homeless that was headquartered in Nairobi. “I was very moved when I was exposed to real poverty in Latin America, Africa, and Asia,” she says, “and I knew it wasn’t right.”

Jamii Bora took root when Ingrid adopted a street child in Nairobi and began meeting the mothers of other street children. She realized that the women, mostly beggars, had to start saving. To encourage them, she offered to loan them double the amount they saved; two shillings for every one they saved. The strategy worked. The women began to save and to borrow, and their success attracted many others as did the fact that Ingrid hired former beggars, sending a clear message of hope, “If I can do it, so can you.”

By October 2007, Jamii Bora – the organization Ingrid started with only fifty beggars in 1999 – had grown to 170,000 clients and had disbursed a cumulative US\$28 million in loans. At that time, its members comprised 25% of all the households in the two worst slums in Kenya.

Jamii Bora would not be as successful if it did not offer a support system for its members. When, for example, thieves break into their little kiosks, corrupt police take their goods or a fire destroys everything: “You have to be there to encourage them and help them through crises. It’s not enough to expect that a loan by itself will be enough to move them out of poverty.” When these emergencies occur, she brings the members together to help them get back on their feet so they can repay their loans and get new ones.

B. More than Microfinance: Health Services

In early 2001, when Ingrid realized that some clients were falling behind in their repayments, she and her staff visited all the members who were in arrears to find out why. They found that 93 percent of members with arrears had the same problem: someone in the family was sick and needed to be admitted to a hospital. When Ingrid realized the members could not afford medicines or health services, she asked insurance companies to develop an insurance product for the members. On finding out that the

cheapest policy was far more than the members could afford to pay, she decided to develop her own in-house health care product.

Ingrid and her staff considered the health care needs of the members as well as their ability to pay for health services. They finally determined they could charge 1,000 shillings a year (US\$12), which would cover health services for one adult member and a maximum of four dependent children. Additional children could be covered for only \$2 per child per year. What's more, the policy would cover in-patient care, consisting of treatment in one of the mission hospitals in Nairobi that Ingrid linked to Jamii Bora.

The mission hospitals traditionally served the poor, but had difficulty making ends meet and could not afford to provide services on credit. Ingrid solved the problem by paying them up front for their services and sending Jamii Bora members to the hospital with a letter vouching for their health insurance which would cover all costs of care. She is extremely proud that she was able to succeed in spite of all the experts who told her that it would be impossible to get affordable health coverage for all the members and not just a few.

The policy covers not only maternity-related services, but any kind of medical interventions, including in-patient treatment for people with HIV and AIDS. Since instigating the insurance coverage, Jamii Bora has been able to cover all costs of care for its members. No operation seems out of bounds. Ingrid tells a story about sending for an artificial hip from Germany for a young beggar woman, the mother of three small children, whose hip was so dislocated she could not even sit up in bed.

C. The Frontier: Township Development

Perhaps the most ambitious project Ingrid is undertaking is the development of Kaputei, a township near Nairobi that will provide housing for Jamii Bora members, who live in slums where space is expensive and crowded with little privacy or access to clean water and electricity. She sees good housing as an asset that will improve members' health and provide a safe place for them to work or store their products.

Plans for the township are ambitious. The Jamii Bora Trust has procured 293 acres of prime land in Kisaju, Kajiado District for 2,000 families. Each neighborhood of 250 families will include its own playgrounds and parks. The town center will provide commercial, cultural and educational services that will be open to the community at large and not just to the township residents. Ingrid is working with two universities to ensure that the township is based on ecologically sound principles. It will have trees for beauty, wind protection and income generation from wood sales. The wastewater will be recycled and cleaned to protect the environment of all down-stream communities. An industrial center will produce building materials for the homes and provide employment and income for residents.

D. Future Goals

Looking ahead to the time she is no longer at the helm of Jamii Bora, Ingrid foresees the members taking over the leadership. She believes this is feasible. “Jamii Bora has always been run like a cooperative,” she said, “and its members have been involved in its development all along.” Ingrid dreams of the time when Jamii Bora will have operations in every corner of Kenya, but she is not naïve. “If well-intentioned investors take it over, it will be all about the money. Even social investors are under pressure from shareholders, and may have to put profits ahead of members’ welfare.”

III. CARMEN VELASCO AND LYNNE PATTERSON, CO-FOUNDERS AND DIRECTORS, PRO MUJER

A. Vision and Motivation

Carmen Velasco attributes her interest in social justice to her father’s influence when she was growing up in Bolivia. He was extremely compassionate, and he abhorred poverty. Carmen observed poverty first hand when, as a student of educational psychology, she was required to work with poor children with learning disabilities in Chile. Later, in Bolivia, she continued to work with parents and children in El Alto, establishing daycare and running parent programs in the most impoverished areas of the city. The Early Childhood Stimulation Guides she produced for UNICEF were designed to help parents

prepare their infants and toddlers for school. “What motivates me,” says Carmen, “is the urge I have to pursue justice. I am always asking myself, ‘Why we do we have to live in a world that is so unfair?’”

I share a very similar background to Carmen’s, having always worked with low-income children and parents in public schools in New York City and Long Island. When I moved with my family to La Paz in 1990, I looked for ways to continue working with parents and children. Fortunately, I met Carmen and we began developing programs in parent education, health and family planning for women receiving donated food – the poorest of the poor. We soon realized that the best way to give the next generation a good start, was to teach their mothers how to keep them safe and healthy and intellectually curious.

After six months, the women told us their most pressing need was to increase family income and they asked us to help them initiate or improve their small businesses. By then we were so committed to these women that we agreed to help, though we knew nothing about small business development or financial services. We would never have believed that this would eventually lead us to founding Pro Mujer and replicating the development programs we designed for women in Bolivia and in four other Latin American countries in the next few years.

B. Approach to Microfinance

For Pro Mujer, microfinance is just one way – in addition to business training, preventive health education and high-quality, low-cost primary health care - of helping empower women, and not an end in itself. We selected a group lending methodology, sometimes called “village banking,” because we saw it as the ideal vehicle for the ongoing training and education of women. We named the lending groups communal banks, and empowered the women in those groups to self-organize through elected boards of directors, credit committees, and solidarity groups, among others. These groups are training grounds for women where they learn and practice communications and leadership skills, help and encourage each other to solve both personal and business

problems, and in the process develop the self-esteem and self-confidence that enables them to renegotiate their relationships at home and in their communities. All of this is done in safe and supportive environments hosted by our Pro Mujer centers and moderated by trained credit officers who also facilitate educational programs.

Not all poor people are entrepreneurial, but since there are few or no jobs available to them, their only option for employment is to create their own jobs by starting a small business. These micro-businesses yield micro-income and few become robust businesses. Most people would prefer a job and stable income to starting a small business. The most intractable problem facing microfinance clients is developing a stable and profitable business. Getting a loan is no guarantee that a woman will be able to initiate a successful small business. That is why Pro Mujer provides ongoing training in business skills and financial literacy such as accounting, business management and supply and demand, among others, and strives to link women with other resources they need to develop their businesses.

Because we accept clients with little or no business experience, we require that new clients produce a business plan showing how they intend to invest and repay their loan. Basic business training has always been part of Pro Mujer's multidimensional approach, as most very poor women lack strong entrepreneurial skills and are simply copying businesses they observe. In addition to business training, Pro Mujer offers financial literacy training along with health and human development training (domestic violence, women's rights, etc.) geared to clients' needs and preferences. That is just part of the story, because our clients are also at risk because of potential health problems.

C. New Frontier: Health Services

“What good is access to financial services if you are sick?” asks Carmen Velasco. “I hear everyone saying health insurance is the answer. But what good is health insurance if health services are lousy?” Early on, Carmen and I realized that the women were not accessing health services. We heard grisly stories of maltreatment at clinics and hospitals where the women were left alone, not given care or even clean bedding, and ignored by

staff that looked down on them. They preferred to have children at home on the kitchen floor, though the chance that infants would survive their first year was slim. In fact, many women did not even name their newborns until they were a year old, fearing they would not survive. Carmen and I looked high and low for quality health services for our clients, but without success. As a result, we set up clinics in the neighborhood centers where our clients could receive the primary health care they and their families needed.

Pro Mujer's health services are currently being upgraded and refocused on the prevention of chronic diseases which are on the rise across Latin America but are being neglected by the public sector. Pro Mujer's new health model, which is being piloted in Nicaragua, will focus on the prevention of diabetes, cancer, hypertension and asthma – that cause 80% of deaths in low- and middle-income countries – as early detection can dramatically reduce both mortality rates and treatment costs. Pro Mujer is in an ideal position to educate women to undergo testing and to follow up on the results as health education is provided at loan repayment meetings.

The new model and the lessons learned from the pilot will be adapted and rolled out to all of Pro Mujer's operations in Latin America. The advantages of this health model will be: 1) high-impact as a result of prevention and early detection of the most common conditions; 2) long-term cost savings for women due to timely control of conditions; and 3) convenience for clients since health services will be in Pro Mujer's neighborhood centers, together with improved compliance with health care regimens for the same reason. This not only has implications for our own operations but it has the potential to have an impact in other countries around the world.

The model is designed to be financially sustainable as the price of health services will cover costs and will be paid in installments. To ensure the model's success, Pro Mujer carried out market studies to determine what clients value and what services they are willing to pay for. Pro Mujer will collaborate with other providers to ensure that its clients have the broad range of services they need at prices they can afford.

“What motivates me the most is the idea that we are making a huge difference,” says Rosario Perez, Pro Mujer’s CEO. “Pro Mujer has offered an integrated package of educational, financial and health services since its founding. It has never deviated from its main goal which is to get these women to become the architects of their own lives. When I go out into the field and listen to the women talking among themselves in their groups, I understand the profound impact we are having on their lives. And I think that the women who are entering Pro Mujer at this time are probably more privileged than those women Carmen and Lynne met 20 years ago in El Alto, because the world and their respective countries have evolved since then. They have undergone such transformations as a result of globalization, technology and the relatively easy access to information. What I have seen in my five years with Pro Mujer, two on the board and three here, is unbelievable.”

For the short term, Rosario is focusing all of Pro Mujer’s efforts around a demand-driven, client-centric model, in contrast to the historical mindset that saw the poor as beneficiaries. She is making sure that all of Pro Mujer’s employees see these clients as women who have choices to make based on individual preferences, providing them with the services they need, delivered in the way they can best access them, and at the lowest sustainable price.

Rosario is creating the infrastructure – the training programs and tools for the staff – that are needed in order to accomplish her goal of building a relentlessly client-focused organization. She knows that because Pro Mujer is a client-focused organization, not a service or a product organization, employees need to respond to clients’ feedback and make needed changes in products, services, or service delivery. They also need to continue to be aware of the problems clients are experiencing in order to remove as many barriers as possible.

“I see more things coming down the pipeline in all areas. I see our clients, depending on where they are in their life cycle or their business cycle, requiring differentiated types of training, differentiated types of financial, health and human development services for

them and their families. So it's constantly redefining and rediscovering what they need and how they need it. Clients change, markets change, and Pro Mujer has to constantly innovate and make the right connections. While I don't have a crystal ball, I know things are going to change, but we need to be ahead of the curve and making those changes – not just be ready for it.”

IV. FAZLE H. ABED, FOUNDER OF BRAC

A. Vision and Motivation

Fazle H. Abed is driven by the vision of a world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential. He is determined to find the most effective ways to overcome poverty, illiteracy, disease and social injustice by empowering men and women to reach their full potential through economic and social programs.

“We came to microfinance by looking first at integrated rural development,” recalls Abed, “by looking at people for their health, education, employment, savings. We actually started a savings program before we started giving credit. I have always felt that poor people have very short time horizons to think about – daily bread, daily needs. They can't think more than 24 hours at a time. They think by next week things can be better if I get a job today. I thought the thing to do was to start savings because that would give a person a longer time frame to think about, not just one day.”

From his experience in the 1970s, Abed learned that livelihood development is an important, if not the most important component for helping people rise out of poverty. Livelihoods, as distinct from jobs, are income-generating activities that women can carry out in addition to the other responsibilities in the home and caring for children. From the start, during the aftermath of the 1972 cyclone, he worked to restore the livelihoods of the farmer and fishermen who had lost everything. He took nothing for granted. He visited the area, did a survey of needs and, based on his analysis, recognized that the restoration and/or provision of livelihoods was key to future progress.

B. Approach to Microfinance

According to Abed, “Everybody can’t just do microfinance. Microfinance has to be combined with other plus plus (microfinance in addition to non-financial services). It’s much better if you can combine it with other things like health and education. Microfinance plus plus is something that has its own challenges, but if you can’t do all of it, at least do microfinance. So what I am doing right now, what we are doing going into a new area, I would say start off with microfinance and get that working right and then you can provide education and health care and other things. So I would start with microfinance and then combine it, add on, other services.”

“I think you need both. You need to create jobs for poor people as well as make them social entrepreneurs. Poor people need jobs also, and that’s the reason that I asked a group of donors to give me some money to start off a small and medium enterprise lending program. And this has been very successful in creating new jobs for people. Then I set up a bank to do that in Bangladesh and it is doing that on a fairly large scale, \$1.2 billion now for small enterprises.” The loans are larger than microfinance, starting at \$700 to \$800 and going up to \$30,000.

“I have set up a bank. In order to do small and medium enterprise lending, you need to do be a banker and have banking skills to understand – read balance sheets, cash flows – so your loan officers need to be more like a banker than a microfinance officer. Most clients are men. They are more entrepreneurial, more willing to take risks. In Bangladesh women tend to be less entrepreneurial at that level. They often are not allowed to do the kinds of things that men are allowed to do in our society.”

BRAC’s social enterprises span livestock, fisheries, printing, packaging, and retail that provide employment for thousands of people as well as surplus funds that subsidize its less profitable health and educational services.

An example of one of BRAC’s social enterprises is the dairy business it created for women whose primary income-generating activity is selling milk their cows produce.

Many of the borrowers invest their loans in livestock. To increase their productivity, BRAC provides supporting activities that form backward and forward supply chain linkages, including disease management, dissemination of improved breeds, supply of livestock and poultry feeds and marketing of milk. To minimize borrower risks, BRAC provides training on feed care and illness detection, delivers veterinary services, artificial insemination to improve cattle breed and arranges for village-level milk collections. Women can walk from their home to a central place in the village where milk is collected daily and taken to regional chilling centers. Tankers collect from chilling centers and deposit centrally for processing, packaging, national distribution and sale. Taken together with access to BRAC's health care, education and social empowerment programs, they form a value chain. The end result is creation of employment and income for borrower and a furthering of the mission.

Distinguishing features of these enterprises is BRAC's willingness to accept low profit margins and to shoulder considerable risk on behalf of clients pursuing their principal income generation activity. Careful planning and pilots help to ensure that there is demand for products and that the enterprise is viable. BRAC persists in running low-profit enterprises because those ventures create transformative benefits for the poor in terms of employment, increased income and the like.

C. A Global Frontier

Abed says he wished he'd gone global earlier. "I think on the whole our expansion has shown that our program is more or less replicable to other cultures, but some have required adaptations, for example, when we went to Afghanistan and we went to provide financial services to women, but you can't have male staff working with women so we just have all female staff." At first, he notes, some of the women were reluctant to go village to village, but once they started going on their own, as long as they wore the veil and observed custom, it was fine. Now there are more than 2,400 BRAC loan officers working in Afghanistan and they are all women.

In Africa, BRAC has women driving motorcycles, something they can't do in Afghanistan because of their burkas, but Abed hopes that one day BRAC will be able to give Afghan women motorcycles too. "I want to give thousands of women motorcycles all at the same time and maybe one day we'll have a rally in Kabul where 10,000 women are driving motorcycles." Talk about breaking the rules!

Abed is thinking ahead to the time when almost everyone in Bangladesh, including BRAC's poorest clients, will have access to a cell phone that will allow them to save and transfer money and make payments. BRAC has already got a license from the Central Bank to set up this mobile cash management system. He foresees the day when 30 million Bangladeshi microfinance borrowers will have access to cell phones and BRAC will be able to reduce the costs of delivering financial services to the poorest people in the remotest areas of the country.

D. The Future

Abed believes that group programs will still continue, but that face-to-face time with people will diminish. Right now, 8.2 million people in Bangladesh are meeting with BRAC staff every week. Monthly meetings would be more efficient, cutting down the travel for the clients and the staff. BRAC will stay connected to clients through cell phones, and clients will transact business among themselves through cell phones. "I just hope I live long enough to see this happen. It is wonderful to see all the changes that are happening and in the right direction. Some people have said that as you grow older you get more and more pessimistic, but I get more optimistic the older I get." In the next four years he predicts that BRAC's staff will number 100,000 and that it will be expanding operations and services in 10 to 15 countries. Education will be a primary focus as the ultimate goal for Abed is an educated citizenry.

V. BEYOND MICROFINANCE: SOCIAL AND FINANCIAL INCLUSION

While all of the founders profiled above have very different backgrounds and shaped very different organizations, they share the following characteristics:

- They are motivated by the desire to alleviate suffering imposed by poverty and create a world where all people can flourish;
- They organize the poor in groups to receive financial services and ongoing education and training;
- They place clients in leadership roles that develop their abilities and self-confidence;
- They provide a range of services in addition to financial services in order to help clients achieve business success and also to live their lives with dignity and pride;
- They are pioneering new solutions that are needed to respond to rapidly changing client needs and evolving economic and political conditions;
- They are forming partnerships with public and private entities to increase outreach and impact;
- They amplify their organizations' beneficial impact on clients by reinvesting any "profits" in the enhancement of programs and services clients need; and
- They are optimistic and continue to pioneer new solutions to the multi-dimensional problem of poverty.

The microfinance movement has gone in two directions. On the one hand it has become more exclusive by focusing only on financial services and, on the other hand, it has become more inclusive as it has adopted a more holistic approach by combining financial services with other sectors such as health care and livelihood development. Both of these directions have borne fruit. We've seen the success of commercial microfinance in terms of scale and profitability. The more commercial financial institutions are serving the largest number of clients, though they may not be the poorest clients. The more socially motivated organizations have used microfinance as a platform to deliver other services; they have reinvested profits to be able to provide health and educational services that rival or even exceed financial services in importance.

Where do we go from here? The answer seems obvious: The microfinance movement will continue to innovate to effectively serve the poorest clients and expand the level of

fairness and inclusion among developing economies worldwide. There will be new entrants to the field, and more social entrepreneurs will work toward finding business solutions to longstanding and seemingly intractable social problems. Innovation and change will speed up as new technologies like cellphone-based financial transactions give rise to increased access to financing and the internet expands access to information and expertise.

These diverse efforts will be united by the ethical and operational imperative to provide services and products to the poor in a transparent, ethical and businesslike way. The microfinance institutions that do this most consistently and sustainably will be most successful. The focus will be on understanding, knowing and serving clients, rather than protecting them from bad business practices.

Microfinance proved the previously unthinkable: that the poorest entrepreneurs are creditworthy and bankable. It showed that there are viable markets for good products that the poor want and need, and that if these products are provided affordably and conveniently they will be adopted. I believe that we've moved beyond microfinance and we're seeing new entrants who are designing business models to sell affordable health care, education and housing to people previously left adrift by conventional business and government. We can no longer work in isolation from each other, but need to work together – governments, NGOs, non-profits and mainstream businesses – to create the vision and the social and political environment that can enable all people to leave poverty behind and lead their lives with dignity.

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