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# VILLAGE BANKING AND THE MILLENNIUM DEVELOPMENT GOALS: AN INNOVATIVE WAY TO FIGHTING POVERTY

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## KEY WORDS

*Village Banking; Millennium Development Goals; Poverty; Microfinance; Development.*

## ABSTRACT

*Improved income as a result of the Village Banking microfinance model means progress in all eight Millennium Development Goals – not just in the eradication of poverty. As clients generate more income from new or expanded businesses, they also tend to make improvements in areas related to education, health and their overall standard of living.*

## Introduction

In the year 2000, the leaders of 189 nations committed to a global partnership to free people from extreme poverty and associated deprivations. This vow took the form of 8 Millennium Development Goals aimed at reducing poverty and improving education, health, gender equality and environmental sustainability by 2015. Village Banking has been working to fight poverty and respond to the needs of the most vulnerable since its inception in 1984 when FINCA International founder John Hatch developed and implemented a small loan program for low-income farmers that allowed them to obtain loans

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without collateral —their primary obstacle to accessing credit— at interest rates they could afford.

While a causal relationship between Village Banking loans and progress against the areas outlined in the MDGs has not been established, we do have evidence that our clients have more income sources over time which leads to higher household incomes and perhaps more importantly, resilience to shocks such as illness or death of a wage earner. In addition, assessment data that compares current clients with new clients reveals that the former tend to have higher incomes, more children in school and better health practices.

This paper explores the role of Village Banking in furthering the Millennium Development Goals by linking each Millennium Development goal with FINCA client success stories and the outcomes of client assessment research.

*Client story: Nayima Umaru, FINCA Uganda VB client*

*After she was abandoned by her first husband, and following the death of her second husband, Nayima Umaru was living in a single room in Jinja, Uganda with her 10 children. She had spent her savings caring for her late husband and could only find work cleaning the houses of extended family members, whose leftover food she also used to feed her children. With no savings and a meager income, Nayima was forced to take her children out of school because she could no longer afford the fees.*

*Nayima's luck changed when a friend took her to a FINCA village bank where she learned that FINCA made initial loans of fifty thousand shillings (US \$50) to poor women so that they could start a small business or microenterprise. After three women in the village bank agreed to guarantee her loan, Nayima obtained her first loan and used that money to purchase a crop of tomatoes which she then sold in a market for a profit.*

*Over the next three years, Nayima continued to grow her fruits and vegetables business, financed by increasingly larger loans from FINCA, and was able to save enough money to open a restaurant. Her restaurant employs her daughters, save for one who is currently attending university, and has allowed her to save enough money to buy a piece of land and build a small house for her family.*

Improved income as a result of Village Banking means progress in many of the Millennium Development Goals<sup>1</sup> —not just in the eradication of poverty. As clients generate more income from new or expanded businesses, they also tend to make improvements in areas related to education, health and their overall standard of living. A client who before did not have access to capital is now able to enter a market previously out of reach due to high start-up costs and can purchase products in bulk for cost savings. Selling products at a profit allows the client to expand her business which in turn grows her income. Increased income allows her to pay for her children’s school fees, afford better food, and to build her family a house. Through client stories and assessment data, the following discussion examines the way in which Village Banking supports the achievement of each of the Millennium Development Goals.

## Village Banking and the Millennium Development Goals

### Millennium Development Goal: Eradicate extreme poverty and hunger

Village Banking targets the poor who would otherwise not have access to financial services and seeks to provide them with the opportunity to grow their businesses, increase their incomes, and to alleviate the harsh conditions of poverty. The Village Banking cost structure promotes a pathway out of poverty and hunger for its clients<sup>2</sup>.

Small loan size, insufficient access to food, higher percentage of income spent on food and overall lower quality of living standards, compared with non-clients, are all characteristic of Village Banking’s target market. A study of MFIs in 17 Latin American countries found that average Village Banking loans are \$150, compared to \$329 for solidarity group and \$980 for individual loans<sup>3</sup>, illustrating how Village Banking targets the extreme poor. Findings from FINCA Client Assessment Research (FCAT), noted in Table 1, revealed that members of a Village Banking (VB) group were more likely to not have enough food than an individual loan recipient:

1. UNITED NATIONS: “The Millennium Development Goals Report 2010”, 2010. <http://www.un.org/millenniumgoals/pdf/MDG%20Report%202010%20En%20r15%20-low%20res%2020100615%20-.pdf>

2. HUPPI, Monika and FEDER, Gershon: “The Role of Groups and Credit Cooperatives in Rural Lending”, *The World Bank Research Observer*, Vol. 5 No. 2, July 1990, pp. 187-204. <http://www.microfinancegateway.org/gm/document-1.9.24511/1833.pdf>

3. WESTLEY, Glenn D.: “A Tale of Four Village Banking Programs: Best Practices in Latin America”, *Inter-American Development Bank Sustainable Development Department Best Practices Series*, June 2004. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=366912>

Table 1. Percentage of clients that sometimes or often did not have enough food

Country	Village Banking Clients	Individual Loan Clients
Tanzania <sup>4</sup>	12%	1%
Ecuador <sup>5</sup>	25%	15%
Malawi <sup>6</sup>	22%	2%
Uganda <sup>7</sup>	13%	8%

Source: FINCA International. *FINCA Client Assessment Research, 2010.*

In all cases, Village Banking clients have a far lower standard of living and spend a greater proportion of their income on food per year than their individual loan counterparts.

Village Banking can reach very poor populations because lenders are able to overcome the typically high fixed costs associated with individual loans to impoverished clients<sup>8</sup> – If a bank were to make 30 individual loans it would be more costly than lending to a village bank group of 30. Loans for one individual in a village bank are guaranteed by the group, thus mitigating the risk. Lower risk of default and lower transaction costs of lending to Village Banking groups means microfinance institutions (MFIs) can offer sustainable, low interest rates on loans<sup>9</sup>. This in turn increases income for clients and frees up money to spend on education, healthcare, and infrastructural improvements. Many village banks also require deposit savings<sup>10</sup>, which not only decreases the risk of default, but also promotes healthy saving habits which are critical for pulling out of poverty and establishing a better standard of living.

The cost structure and intention behind Village Banking are only as good as the true impact on client's lives. FINCA poverty assessment data suggests that Village Banking indeed improves people's lives by enabling them to better their economic condition, by as much as 41%<sup>11</sup>, and reducing their vulnerability to

4. FINCA INTERNATIONAL: "FINCA Client Assessment Research: Tanzania Analysis 2010", 2010.

5. FINCA INTERNATIONAL: "FINCA Client Assessment Research: Ecuador Analysis 2010", 2010.

6. FINCA INTERNATIONAL: "FINCA Client Assessment Research: Malawi Analysis 2010", 2010.

7. FINCA INTERNATIONAL: "FINCA Client Assessment Research: Uganda Analysis 2010", 2010.

8. KARLAN, Dean S.: "Social Connections and Group Banking", *The Economic Journal*, Vol. 117 No. 517, February 2007, pp. F52-F84. <http://aida.econ.yale.edu/karlan/papers/soccapaper.pdf>

9. HUPPI, Monika and FEDER, Gershon: "The Role of Groups and Credit Cooperatives in Rural Lending", *The World Bank Research Observer*, Vol. 5 No. 2, July 1990, pp. 187-204. <http://www.microfinancegateway.org/gm/document-1.9.24511/1833.pdf>

10. ROODMAN, David and QURESHI, Uzma: "Microfinance as Business", *Center for Global Development Working Papers*, November 2006. <http://www.cgdev.org/content/publications/detail/10742>

11. SMITH, Brock: "Varying Economic Effects of Village Banking", *Inspiring A New Generation: FINCA's Research Fellows Program and Insights from the First Four Years*, 2006, p. 43. <http://www.finca.org/atf/cf/%7BF8D809671-5979-4D43-BFB8-3301E4FC97EB%7D/Inspiring%20a%20New%20Generation.pdf>

2005 FCAT data showed that current FINCA Malawi clients were 41% economically better off than clients just joining FINCA.

poverty. A 2003 study of 11 different FINCA Affiliates found, using business income data, that current FINCA clients earned an average of \$10.73/day, which was 130% more than non-clients (\$4.65/day), 36% more than new clients (\$7.91/day), and 21% more than ex-clients (\$8.86), suggesting a strong income boost resulting from access to microcredit<sup>12</sup>. Higher earnings also translate into the ability to spend more on important things such as higher quality food, education and housing.

Preliminary findings from a first set of longitudinal data assessing the impact of FINCA's products on Mexican clients confirm an increase in the standard of living of our clients. The median daily per capita expenditures (DPCE)<sup>13</sup> for a FINCA client in Mexico, for example, increased from 5.15 PPP USD in 2007 to 5.93 PPP USD in 2009, an average increase of 78 PPP USD. This increase in standard of living was statistically significant for those clients living below 4 PPP USD in 2007, leading us to conclude that the receipt of a FINCA loan has a positive effect on the well-being of our clients.

Additional standard of living measures demonstrate similar trends and also reflect how microfinance positively affects the lives of those beyond the client. Since receiving a FINCA loan, clients in Mexico have, on average, grown their enterprise(s). The average number of businesses owned by our clients has increased: in 2007, 74% of clients reported owning one business, while 23% owned two or more. However, in 2009, 39% of clients reported owning two or more businesses, a statistically significant increase of 16 percentage points. In addition, findings show that on average, clients in Mexico employed more people in 2009 than in 2007, suggesting not only an increase in the clients' standard of living, but the enhancement of the local communities.

While the Village Banking cost structure helps clients build their assets, access to product offerings like microinsurance allow them to maintain this progress by curtailing the effects of unfortunate medical or natural disaster emergencies<sup>14</sup>. In response to the HIV/AIDS epidemic, FINCA partnered

12. HATCH, John and CROMPTON, Peter: "FINCA Client Assessment-2003: A Report on the Poverty and Impact of 11 Country Programs", January 2004, p. 2. [http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDMQFjAD&url=http%3A%2F%2Fwww2.ids.ac.uk%2Fimpact%2Fpublications%2Fpartner\\_publications%2FFINCA%2520CLIENT%2520POVERTY%2520ASSESSMENT.doc&rct=j&q=FINCA%20poverty%20impact&ei=fWQDT\\_r\\_y18bZiALu0Z2RDg&usq=AFQjCNGmnejPwZv0OmbiCT9bA4LOvyyqEg](http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDMQFjAD&url=http%3A%2F%2Fwww2.ids.ac.uk%2Fimpact%2Fpublications%2Fpartner_publications%2FFINCA%2520CLIENT%2520POVERTY%2520ASSESSMENT.doc&rct=j&q=FINCA%20poverty%20impact&ei=fWQDT_r_y18bZiALu0Z2RDg&usq=AFQjCNGmnejPwZv0OmbiCT9bA4LOvyyqEg)

13. The Daily Per Capita Expenditures (DPCE) of FINCA FCAT respondents are computed from expenditures incurred by the household (rent, utilities, personal products, home repairs, furniture/appliances, clothing/shoes, education, health, special events and leisure). The value of the food produced and consumed in the household is added to this sum. Expenditures are annualized, then divided by 365 and by the number of household members in order to obtain the average daily sum spent by each respondent's household for each of its members over the year.

14. ROODMAN, David and QURESHI, Uzma: "Microfinance as Business", *Center for Global Development Working Papers*, November 2006. <http://www.cgdev.org/content/publications/detail/10742>

with AIG to pioneer Uganda's Group Personal Accident Insurance which protects families when a Village Bank member dies or becomes disabled, in addition to the group of borrowers who depend on its members for its existence. The policy ensures other members' ability to keep borrowing even after the death of a member or property loss (which the policy also covers). According to research conducted on the impact of microinsurance at FINCA Uganda, "members of a group in which five members had their businesses destroyed by fire were able to rebuild because their previous loans were paid off and they could borrow again. In another instance, a young man was able to get a much-appreciated financial boost from the insurance company after his mother died and he was forced suddenly to become the chief breadwinner of his family"<sup>15</sup>.

*Client story: Mayrambubu Bolokbaeva, FINCA Kyrgyzstan VB client*

*Mayrambubu Bolokbaeva is a mother of five who lives in the village of Choktal. After her husband lost his job, she became responsible for providing all her family's income and decided to open a shop. But after paying for rent and inventory, she couldn't generate enough income to meet her family's needs. Mayrambubu tried to take out a loan to expand her inventory, but lacking any personal collateral, no traditional bank would make her a loan.*

*In the summer of 2001, Mayrambubu learned about FINCA's financial services. She soon organized a Village Bank group and became one of its leaders. Mayrambubu used her first FINCA loan of US\$75 to buy merchandise in bulk quantities, and broaden her shop's selection. She has maintained her relationship with FINCA, and her revenues and profits have increased steadily.*

*Mayrambubu plans to use her current FINCA loan of US\$457 to open another shop. With her hard work and FINCA loans, she was able to raise her children and pay for their education. Now, her sons and her husband have started their own businesses with small loans from FINCA, too. Mayrambubu said, "For many years, I was the only person making money in my family. Without FINCA loans, I would not have my successful shop, and my sons would not have been able to go to school and start their own businesses. I am a happy mother".*

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15. YOUNG, Pamela, MUKWANA, Peter, and KIYAGA, Edward: "Microinsurance: Exploring Ways to Assess Its Impact", *Financial Services Assessment Project*, June 2006, p.12. [http://www.microfinanceopportunities.org/docs/Microinsurance\\_Ways\\_To\\_Assess\\_Impact\\_Young06.pdf](http://www.microfinanceopportunities.org/docs/Microinsurance_Ways_To_Assess_Impact_Young06.pdf)

## Millennium Development Goal: Achieve universal primary education

Access to microfinance is a critical factor in determining whether children from poor families attend school. A USAID-AIMS report<sup>16</sup> from Uganda found that microfinance client households invest more in education than non-client households; over half the clients stated that income from microenterprise financed that education<sup>17</sup>. Village Banking impacts families' abilities to send their children to school by increasing their income, which provides them with the resources to pay school fees. Furthermore, when parents have access to sufficient income children do not have to drop out of school to provide additional money for the family.

*Client story: Ingrid Johana Castillo, FINCA Guatemala VB client*

*Before joining FINCA, Ingrid Johana Castillo's small business selling dust rags and dish cloths in a nearby market was not providing enough income to support her mother and two daughters, and though she also worked preparing "paches"-small tamales made from potato dough, covered in sauce and wrapped in banana leaves-to sell, she could not make ends meet. Though she was only able to attend school through the sixth grade, Ingrid dreamt of affording her daughters the education she never had, hoping this could break the cycle of poverty her family has endured.*

*Ingrid joined a FINCA Village Banking group, took out her first FINCA loan for 1,800 Quetzals (US\$ 244), and bought cloth and potatoes in larger quantities at better prices. Today, Ingrid's business continues to expand. She has increased her loan size to 3,200 Quetzals (US\$ 450), and with the additional earnings, Ingrid is now able to put savings aside toward achieving her dream of seeing her daughters complete their education.*

A study of 11 different FINCA Affiliates found that current clients keep a larger percentage of their school-age children in school (94% versus 87% for

16. BARNES, Carolyn, GAILE, Gary, and KIBOMBO, Richard: "The Impact of Three Microfinance Programs in Uganda", *AIMS Project*, January 2001. [http://pdf.usaid.gov/pdf\\_docs/PNACLO35.pdf](http://pdf.usaid.gov/pdf_docs/PNACLO35.pdf)

17. BANERJEE, Abhijit, DUFLO, Esther, GLENNERSTER, Rachel, and KINNAN, Cynthia: "The Miracle of Microfinance? Evidence from a Randomized Evaluation", 2009. <http://econ-www.mit.edu/files/4162>

A 2009 study by Abhijit Banerjee, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan suggests microfinance may not have an impact on education. However, this study is limited in scope as it examines community-level information for Hyderabad, India on a short-term basis.

non-clients). It also found that current clients are keeping a larger percentage of their children in secondary school (48% versus 39% for non-clients), as well as post-secondary school (9% versus 4% for non-clients)<sup>18</sup>. A 2005 study of FINCA Haiti found that 33% of new clients viewed the educational situation of their family as poor, while only 18% of current clients felt the same<sup>19</sup>.

### **Millennium Development Goal: Promote gender equality and empower women**

As of April 2011, approximately 65% of FINCA's clients are women<sup>20</sup>. Providing financial services to women allows them to start and build businesses that grant access to their own income, which empowers them to make life decisions and exert more control over their destiny and that of their family. Increased income also means they can educate their daughters and increasing the number of educated women will likely improve the chances of increased gender equality for future generations.

*Client story: Norah Musoke, FINCA Uganda VB client*

*Norah married at a very young age and had six children with her husband. One day, without warning, he left her and her children to marry another woman and, in the process, sold their home and land, leaving Norah and the six children destitute. Trying to figure out how to support her family, Norah started a tailoring business but was unable to make enough money*

*Norah started another business milling maize into flour for porridge and other foods, and making feed for farm animals from the husks. When a friend told her about FINCA, she took out a loan of 150,000 Ugandan Shillings (US\$75), and used the money to buy larger quantities of maize from local farmers at better prices.*

*Over the years, Norah has endured tremendous heartache, losing five of her six children to HIV/AIDS. She has opened her home to her*

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18. HATCH, John and CROMPTON, Peter: "FINCA Client Assessment-2003: A Report on the Poverty and Impact of 11 Country Programs", January 2004, p. 3. [http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDMQfjAD&url=http%3A%2F%2Fwww2.ids.ac.uk%2Fimpact%2Fpublications%2Fpartner\\_publications%2FFINCA%2520CLIENT%2520POVERTY%2520ASSESSMENT.doc&rct=j&q=FINCA%20poverty%20impact&ei=fWQDT\\_r\\_yI8bZiALu0Z2RDg&usq=AFQjCNGmnejPwZv0OmbiCT9bA4LOvyyqEg](http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDMQfjAD&url=http%3A%2F%2Fwww2.ids.ac.uk%2Fimpact%2Fpublications%2Fpartner_publications%2FFINCA%2520CLIENT%2520POVERTY%2520ASSESSMENT.doc&rct=j&q=FINCA%20poverty%20impact&ei=fWQDT_r_yI8bZiALu0Z2RDg&usq=AFQjCNGmnejPwZv0OmbiCT9bA4LOvyyqEg)

19. THOMPSON, Sara K.: "Building Economic and Social Wealth: An Analysis of FINCA Haiti", *Inspiring A New Generation: FINCA's Research Fellows Program and Insights from the First Four Years*, 2006 p.63. <http://www.finca.org/atf/cf/%7BFD809671-5979-4D43-BFB8-3301E4FC97EB%7D/Inspiring%20a%20New%20Generation.pdf>

20. FINCA INTERNATIONAL: Global Statistics Report (internal), April 2011.



*orphaned grandchildren, and now is responsible for a family of 18. Fortunately, her business has grown as rapidly as her household. Norah manages her maize mill with financing from a FINCA loan of 3,000,000 Ugandan Shillings (US\$1,500) - a huge difference from where she started. She now employs more than 30 people; some are family members and others are neighbors. Norah has even bought back the land her husband sold.*

### **Millennium Development Goals: Reduce child mortality, Improve maternal health**

As families have access to more income, they are also better able to afford the nutritious food and medical services that are critical to helping reduce child mortality and to improving maternal health. Research on FINCA clients reveals that as they increase their incomes, they spend that extra money in strikingly similar ways. Invariably, the first two priorities are improved family nutrition and medical attention<sup>21</sup>. One study found that access to microfinance led to greater availability of high-protein foods (meat, fish, chicken, and milk) for extremely poor client households<sup>22</sup>. Another found that fewer microfinance clients suffered from severe malnutrition compared to a control group, and that the extent of severe malnutrition declined as length of membership increased<sup>23</sup>. A study of 11 FINCA affiliates found that current clients saw themselves as 15% better off than non-clients in terms of food security<sup>24</sup>.

*Client story: Ana Osorio, FINCA Honduras VB client*

*Even when Ana combined her earnings with her husband's she couldn't afford to buy meat for the family, so the ten of them had to subsist primarily on rice and beans. While Ana could send her children to school, she could not afford all their books and supplies. Ana knew she could increase her earnings if she could boost her cheese production and expand into other dairy products. She joined the*

21. BARNES, Carolyn, GAILE, Gary, and KIBOMBO, Richard: "The Impact of Three Microfinance Programs in Uganda", *AIMS Project*, January 2001. [http://pdf.usaid.gov/pdf\\_docs/PNACL035.pdf](http://pdf.usaid.gov/pdf_docs/PNACL035.pdf)

22. BARNES, Carolyn: "Microfinance Program Clients and Impact: An Assessment of Zambuko Trust, Zimbabwe", *USAID-AIMS Paper*, 2001. [http://pdf.usaid.gov/pdf\\_docs/PNACN576.pdf](http://pdf.usaid.gov/pdf_docs/PNACN576.pdf)

23. BARNES, Carolyn: "Microfinance Program Clients and Impact: An Assessment of Zambuko Trust, Zimbabwe", *USAID-AIMS Paper*, 2001. [http://pdf.usaid.gov/pdf\\_docs/PNACN576.pdf](http://pdf.usaid.gov/pdf_docs/PNACN576.pdf)

24. HATCH, John and CROMPTON, Peter: "FINCA Client Assessment-2003: A Report on the Poverty and Impact of 11 Country Programs", January 2004, p. 19. [http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDMQFjAD&url=http%3A%2F%2Fwww2.ids.ac.uk%2Fimpact%2Fpublications%2Fpartner\\_publications%2FFINCA%2520CLIENT%2520POVERTY%2520ASSESSMENT.doc&rct=j&q=FINCA%20poverty%20impact&ei=fWQDTr\\_y18bZiALu0Z2RDg&usq=AFQjCNGmnejPwZv00OmbiCT9bA4LOvyqgEg](http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDMQFjAD&url=http%3A%2F%2Fwww2.ids.ac.uk%2Fimpact%2Fpublications%2Fpartner_publications%2FFINCA%2520CLIENT%2520POVERTY%2520ASSESSMENT.doc&rct=j&q=FINCA%20poverty%20impact&ei=fWQDTr_y18bZiALu0Z2RDg&usq=AFQjCNGmnejPwZv00OmbiCT9bA4LOvyqgEg)

*Sabana Grande FINCA Village Banking group, and used her first loan of 2,000 Lempira (\$105) to buy greater quantities of milk at better prices. With subsequent loans of up to \$210, Ana nearly quadrupled her profits.*

*Ana's family now eats a more balanced, nutritious diet, including meat several times a week. Ana's younger children have all the books and supplies they need, and she is helping her older children pay for trade schools.*

In addition to access to nutrition, reproductive health is a key component of overall maternal health and there is evidence that microfinance clients are more likely to have better practices. "A USAID-AIMS study reported that microfinance clients in Uganda who received health education about breastfeeding, preventive health, and family planning had much better health practices than non-clients"<sup>25</sup>.

### **Millennium Development Goal: Combat HIV/AIDS, malaria and other diseases**

A study of 11 FINCA Affiliates found that current clients were 18% better off than non-clients in terms of ability to afford necessary healthcare services<sup>26</sup>. While access to financial resources is critical, innovative products such as microinsurance are also promising in combating disease. In Uganda, where FINCA estimates that 80 percent of its clients are caring for at least one AIDS patient or orphan, clients have the option to elect health insurance. A study aimed at identifying ways to assess the impact of microinsurance on clients in Uganda found that those with some form health coverage "appeared more willing to seek treatment early and not simply wait to see if symptoms improve on their own. Respondents with health coverage also said they were more likely to complete a full and appropriate course of treatment, as opposed to attempting to treat themselves"<sup>27</sup>. In addition, researchers "found that those with some sort of health protection were generally more likely to take

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25. BARNES, Carolyn, GAILE, Gary, and KIBOMBO, Richard: "The Impact of Three Microfinance Programs in Uganda", *AIMS Project*, January 2001. [http://pdf.usaid.gov/pdf\\_docs/PNACL035.pdf](http://pdf.usaid.gov/pdf_docs/PNACL035.pdf)

26. HATCH, John and CROMPTON, Peter: "FINCA Client Assessment-2003: A Report on the Poverty and Impact of 11 Country Programs", January 2004, p. 21.

[http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDMQFjAD&url=http%3A%2F%2Fwww2.i-ds.ac.uk%2Fimpact%2Fpublications%2Fpartner\\_publications%2FFINCA%2520CLIENT%2520POVERTY%2520ASSESSMENT.doc&rct=j&q=FINCA%20poverty%20impact&ei=fWQDTr\\_yI8bZiALu0Z2RDg&usg=AFQjCNGmnejPwZv0OmbiCT9bA4LOvyyqEg](http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDMQFjAD&url=http%3A%2F%2Fwww2.i-ds.ac.uk%2Fimpact%2Fpublications%2Fpartner_publications%2FFINCA%2520CLIENT%2520POVERTY%2520ASSESSMENT.doc&rct=j&q=FINCA%20poverty%20impact&ei=fWQDTr_yI8bZiALu0Z2RDg&usg=AFQjCNGmnejPwZv0OmbiCT9bA4LOvyyqEg)

27. YOUNG, Pamela, MUKWANA, Peter, and KIYAGA, Edward: "Microinsurance: Exploring Ways to Assess Its Impact", *Financial Services Assessment Project*, June 2006, p. 12.

[http://www.microfinanceopportunities.org/docs/Microinsurance\\_Ways\\_To\\_Assess\\_Impact\\_Young06.pdf](http://www.microfinanceopportunities.org/docs/Microinsurance_Ways_To_Assess_Impact_Young06.pdf)

preventative measures like boiling water and clearing out bushes (to reduce the number of mosquitoes around the home)”<sup>28</sup>.

In addition to offering microinsurance, Village Banking can also be a powerful mechanism for the promotion of prevention and behavior change communications in a community. “A USAID-AIMS study reported that microfinance clients in Uganda who received health education about breast-feeding, preventive health, and family planning had much better health practices than non-clients”<sup>29</sup>.

*Client story: Prossy Mukisa, FINCA Uganda VB client*

*Prossy Mukisa supports her four children and her parents with the income she earns from her music shop. Prossy is determined to give her children an education so they can seek opportunities she was never able to after her father took her out of school and married her off at age 12 to collect a dowry for the family.*

*For years, Prossy dreamed of starting her own business. She saved what she could while working at a local bakery. In 2004, she quit her job and proudly opened her own grocery store. Her confidence was shattered when her husband left her and married another woman, leaving her to raise their four children and care for her parents. When he lost his second wife, he returned to Prossy and she took him back, unaware that he was HIV positive and would soon infect her. In ill health, she was unable to expand her business.*

*In May 2005, however, Prossy joined the Kazinga Village Bank. With her first FINCA loan of 100,000 shillings (US\$50), she transformed her business into a music store. Over time, her store thrived. To finance her growth, she has increased her borrowing to one million shillings (US\$500). She now employs three young men.*

*Prossy is earning more money and suffering less stress, which has had a positive impact on her health—she feels she is better able to handle the ebbs and flows of her illness. Prossy feels a bond akin to sisterhood*

28. YOUNG, Pamela, MUKWANA, Peter, and KIYAGA, Edward: “Microinsurance: Exploring Ways to Assess Its Impact”, *Financial Services Assessment Project*, June 2006, p. 12.

[http://www.microfinanceopportunities.org/docs/Microinsurance\\_Ways\\_To\\_Assess\\_Impact\\_Young06.pdf](http://www.microfinanceopportunities.org/docs/Microinsurance_Ways_To_Assess_Impact_Young06.pdf)

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*with the women of the Kazinga Village Bank, from whom she has learned valuable business insights and received advice on coping with her HIV status.*

### **Millennium Development Goal: Ensure environmental sustainability**

With nearly 60% of the world's poorest people living in the world's biodiversity hotspots<sup>30</sup> the way the poor make their livelihood is of great consequence to environmental sustainability. Microfinance can help families meet their nutritional, health, and social needs without having to depend on environmentally unsustainable practices. Small loans enable clients to diversify their businesses, rather than relying on one potentially resource depleting practice and also can enable them to adopt more sustainable practices. The important role of microfinance in helping clients adopt environmentally sustainable practices is gaining recognition; an increased number of conservation projects include support programs that incorporate funding for micro and small enterprises located within environmentally sensitive areas<sup>31</sup>.

While still a relatively unrealized concept, microfinance institutions can play a key role in helping address "energy poverty", referring to "the poor being saddled with unnecessary health and financial costs from using inefficient and dirty technologies to light and heat their homes, cook their food and run their businesses"<sup>32</sup>. This role is construed in terms of "bringing clean energy solutions to the poor and (as necessary) financing their initial adoption of it, and/or helping the poor establish businesses based on reselling clean energy products".

FINCA recently provided micro-energy loans to 430 people in Uganda, a country where only five percent of the population has access to electricity, to finance solar home systems (SHS) that offer a sustainable source of electricity. SHS have reduced the need for kerosene lighting and clients report benefits such as improved respiratory health and cost savings. In addition, they say their children are now able to study at night.

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*Client story: Rose Nassimbwa, FINCA Uganda VB client*

*Rose Nassimbwa runs a small restaurant and a tailor shop in the local market. Though she lives within range of the electricity grid, she cannot afford the connection fee. Ms. Nassimbwa uses her SHS at home to charge her cell phone and to power a lamp for an hour in the mornings and two-three hours in the evenings, so that her children can do their homework in the electric light.*

*Ms. Nassimbwa is so pleased with her FINCA SHS that she is now considering acquiring a second system for her restaurant. She is also thinking about moving her sewing machine from her shop to her house for the pre-Christmas holiday period—when demand for her clothing designs rises— so that she can put in extra hours sewing during the evenings. Her goal is to use her additional revenue to expand her tailoring business by purchasing a larger inventory of fabrics and sewing materials to better meet her clients' requests.*

### **Millennium Development Goal: Develop a global partnership for development**

Global partnerships play a key role in addressing the needs of the poor in developing countries. FINCA is breaking new ground in this area having just announced FINCA Microfinance Holdings, LLC (FMH), a first-of-its-kind, socially-responsible investment partnership for microfinance –one that strikes a critical balance between attracting the capital needed for expansion and protecting the integrity of FINCA's charitable mission. This partnership will allow FINCA to strengthen its existing operations, deliver new and improved products and services to clients, and make much more loan capital available to millions of additional people in need. Other innovative partnerships include Microplace, an organization that matches investors with microfinance projects in an effort to provide another source of funding for financial services for the poor. Investors select and purchase investments in specific microfinance projects, issued by reputable organizations such as FINCA.

### **Conclusion**

Village Banking is a key component of the overall effort to achieve the Millennium Development Goals by providing very poor families with small loans to invest in their microenterprises, thereby empowering clients to

create their own jobs, raise their incomes, build assets, and increase their families' well-being. While Village Banking loans are the foundation, as we have seen through client stories, poverty has many dimensions. Other microfinance offerings ensure that the progress clients achieve is not only sustained, but furthered. In addition to the mandatory savings component of most village banks, FINCA offers voluntary savings, insurance products and remittances services all designed to help clients build and protect this progress.

While Village Banking has provided an innovative way to improve the poor's access to financial services, it has not been without its challenges. Over the years, the success experienced by FINCA enticed many other MFIs to enter the market, greatly increasing the overall supply of microfinance in some markets. While the competition for clients was on the whole beneficial, in some markets it manifested itself in lax lending practices which resulted in some clients becoming over-indebted. Specifically, some MFIs, aware that some village banking clients felt burdened by the monthly meetings and the requirement to guarantee each other's loans, removed these requirements. The resulting breakdown in group solidarity and discipline became a contributing factor to the high arrears experienced by many MFIs during the global financial crisis. FINCA responded to this by tightening its credit standards, especially where clients were found to have borrowed from more than one MFI.

An additional challenge for FINCA, as the industry has grown more sophisticated, is balancing the desire on the part of some members of the village bank with faster growing microbusinesses for larger loans with the need for the joint guarantee. Clients who borrow at the level of a few hundred dollars understandably do not want to guarantee loans of several thousand dollars. FINCA has responded to this challenge by providing a "mid size" loan product for groups of 3-5 clients who cannot or don't want to provide physical collateral, but are willing to guarantee each other's loans in the \$1,000 to \$3,000 range. Together with the individual loan product, FINCA clients now have a clear "ladder" of products to meet the needs of their growing businesses.

The achievement of the Millennium Development Goals will rely in part on our ability to continue to identify ways in which to help the poor build their own pathways out of poverty. With the formation of FINCA Microfinance Holdings, LLC (FMH), FINCA International, the foundation, will be increasingly focused on creating innovations that transform our clients' lives and multiply the impact of access to financial services by the poor.

Whereas in the past microfinance by itself could often propel low income entrepreneurs out of poverty, today, as a result of market saturation and increased competition between microenterprises, other social and economic interventions may be required to steer micro entrepreneurs into higher value income producing activities. In any event, the progress achieved thus far in extending financial services to millions upon millions of those formerly excluded from the formal financial sector must be sustained at all costs.

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