



Helping children since 1937

## Capacity Statement

### **Microfinance programs<sup>1</sup>**

#### **Global Overview**

In 2005, an estimated 1.4 billion people, or 25.2% of the developing world, were living in extreme poverty.<sup>2</sup> Defined as living on less than \$1.25 a day (2005 PPP), extreme poverty has proven to be most intractable in Sub-Saharan Africa, where more than half of the population lives in poor households, and where absolute numbers of poor people have risen since 1990.<sup>3</sup> Notwithstanding, the developing world as a whole is on track to meet the poverty target of Millennium Development Goal 1, halving (from 1990 levels) the proportion of people whose income is less than one dollar a day by 2015.<sup>4</sup>

In the development arena, microfinance—the provision of basic financial services, including credit and savings, to the poor—has become a key approach to combating poverty. However, the impact of microfinance reaches beyond simply increased access to financial services. Microfinance has the potential to empower women, improve the health and nutrition of children, encourage school attendance for poor children, allow the poor to invest in income-generating activities, and protect households from economic shocks.

Although informal systems of microfinance have long existed throughout the world, the beginning of the current microfinance movement is often attributed to Muhammad Yunus and the founding of Grameen Bank in 1976. By the end of 2007, 154.8 million people, including 109.9 million women and 106.6 million of the world's poorest, had been reached by 3,552 microfinance institutions around the world.<sup>5</sup> While the direct effects of microfinance are difficult to measure and differentiate from other interventions, an in-depth study by Khandker indicates that the impacts are great. In his study in Bangladesh, Khandker found that microfinance programs accounted for more than 50% of poverty reduction for program participants and approximately 40% of the village-level poverty reduction in program areas.<sup>6</sup>

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<sup>1</sup> Prepared by Judy Chang with contributions from John Schiller and Muhammad Awais

<sup>2</sup> PovcalNet Online Poverty Analysis Tool. Retrieved October 6, 2009, from <http://iresearch.worldbank.org/PovcalNet/povDuplic.html>

<sup>3</sup> *Ibid.*

<sup>4</sup> World Bank PovertyNet. Retrieved October 6, 2009, from <http://go.worldbank.org/K7LWQUT9L0>

<sup>5</sup> Daley-Harris, S. State of the Microcredit Summit Campaign Report 2009. Microcredit Summit Campaign. Retrieved October 6, 2009 from [http://www.microcreditsummit.org/uploads/socrs/SOCR2009\\_English.pdf](http://www.microcreditsummit.org/uploads/socrs/SOCR2009_English.pdf)

<sup>6</sup> Khandker, SR. Microfinance and Poverty: Evidence using panel data from Bangladesh. (2005) The World Bank Economic Review. Vol 19, No. 2, pp 263-286.

Many different approaches to microfinance have been developed over the last few decades, falling under two categories: credit-led and savings-led schemes. The more traditional credit-led model of microfinance relies on a microfinance institution contributing external funds in order to provide credit to clients. On the other hand, the increasingly prominent savings-led model involves organizing community groups who create saving schemes; the collected savings can later serve as a source of credit for group members. Prominent among the savings-led models are ROSCAs (rotating savings and credit associations) and CARE's Village Savings and Loans (VSL) model.

## **Overview of Plan's Response**

Recognizing the key role of economic security in protecting the rights of children, Plan has adopted a Child-centered Economic Security Framework which aims to:

- Promote strategies and systems that encourage “pro-poor” economic growth and create income-generating opportunities;
- Build knowledge, skills and networks that enhance the ability of people to participate in these opportunities;
- Strengthen the economic security and resilience of households to cope with, and recover from, risks and shocks; and
- Reduce barriers and promote opportunities for people who are unable to be economically active or who are socially excluded.<sup>7</sup>

One of Plan's three main approaches to economic security is microfinance. There are currently microfinance programs operating in all Plan regions. In Asia, where microfinance first flourished, Plan's microfinance programs benefit more than 250,000 active members, 88% of whom are women. Moreover, the region has set an ambitious target of growing its microfinance programs to have one million active members by 2012. In the Americas, a target to reach 500,000 new clients from 2006-2011 has been established. While microfinance has caught on more slowly in Africa than in other regions of the developing world, Plan in Eastern and Southern Africa and West Africa is supporting the widespread implementation of village savings and loan (VSL) programs in these regions.

## **Plan's Growing Microfinance Capacity**

Plan International has made a concerted effort to develop and sustain a microfinance program model that reflects international best practice. From 1994-2006, this effort was supported by a series of three USAID grants.

Under the first grant (1994-1996), Plan took stock of its many ineffective microfinance programming practices and identified a new model. The main feature of this model was for Plan to cease implementing microfinance programs itself and instead work in partnership with local microfinance institutions (MFIs).

A second grant (1996-2001)—the Institutional Strengthening Initiative (ISI)—demonstrated the viability of the new program model by applying it in six program countries (Bolivia, Guatemala, Kenya, Mali, Nepal, Philippines) spread among Plan's geographic regions.

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<sup>7</sup> Synthesis of Plan's Country Programme Progress Reports 2008.

The third and final matching grant (2001-2006)—the Sustainable Microfinance in Plan program (SMP)—built on the achievements of the ISI by increasing demand for microfinance services in the field and increasing the supply of resources to meet that demand. In addition, the SMP included a 10-point plan for achieving sustainability. Key elements of this plan included building a critical mass of microfinance practitioners within Plan, improving coordination at the country and regional levels, expanding understanding of new microfinance models, establishing strategic alliances with specialized organizations and networks, and integrating microfinance into Plan’s Child-centered Community Development framework.

Since the conclusion of these grants, Plan has devolved responsibility for MF technical guidance from International Headquarters to regional technical advisors and their networks. There are now 27 Plan Country Offices<sup>8</sup> with dedicated microfinance staff, and 36 country programs include microfinance in their strategic plans. Moreover, there is evidence that MF programming is beginning to be mainstreamed into core activities at country level.

### **Plan’s Key Capacities**

Through Plan’s experience in microfinance, it has developed several key capacities. These include:

- Adapting microfinance services for youth
- Supporting women in accessing and utilizing microfinance services
- Partnering with established MFIs to bring financial services to underserved communities
- Implementing the Village Savings and Loan methodology at scale

Each of these key capacities is detailed below.

***Microfinance services for youth.*** As a child-centered organization, Plan recognizes the importance of providing youth with access to financial services. Indeed, the focus of Plan’s economic security work in the coming years is shifting more and more towards youth financial services.

Plan’s programs have shown the viability of microfinance for youth, as well as savings schemes for children. Among these young populations, such programs can have a lifelong positive impact—children are able to learn the value of saving from an early age, and youth are not only educated about the importance of saving, but they also learn about and gain access to credit and valuable entrepreneurial and life skills training

For example, in the Dominican Republic, the Aflatoun social and financial education program has been implemented to promote savings by children in 24 schools. An agreement has been signed by the Ministry of Education, Junior Achievement and Plan DR, and 3,000 children are expected to be reached by this program.

In Tanzania, the Village Savings and Loan (VSL) project has included children in its activities. 21 VSL groups in Kisarawe, with a total of 500 members, are managed solely by children. The children are learning to save and manage money given to them by their parents.

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<sup>8</sup> Plan has a total of 48 Country Offices in Africa, Asia, and Latin America.

**Case Study: Making financial services accessible and reinforcing the entrepreneurial capacities of youth  
Niger, Senegal, and Sierra Leone, 2007-2010**

**Background:** In 2008, Plan International's West Africa Regional Office began a pilot project in Niger, Senegal, and Sierra Leone to provide microfinance services to youth. With high and growing rates of unemployment among youth in much of Africa, access to financial services and business skills are key to enabling youth to lead productive lives. The project seeks to empower targeted youth socially and economically, enabling them to realize their rights and become change agents to take their countries forward.

**Goal:** To identify effective approaches and methodologies which can serve as models for sustainable and replicable programs, in order to provide access to financial services, professional skills development, and training on essential life skills.

**Activities:** The project has engaged 3,000 youth, especially girls, aged 15-24 years in microfinance and entrepreneurial activities. Beginning with the formation of formal savings groups, youth were provided with training on and access to savings and credit. With the technical partnership of Oxfam America, the Saving for Change methodology was adapted for the participating youth. In addition, the formation of savings groups provided youth with the opportunity to learn to live by a group code of conduct and to gain a sense of group solidarity.

**Outcomes:** A preliminary evaluation has shown that the youth economic empowerment program has succeeded in providing youth with business skills training and access to credit, which have allowed participants to embark on income-generating activities. The participating youth have indicated that they are gaining economic independence and respect from the community—key elements towards empowering youth to work towards a productive future.

**Next Steps:** As the project moves beyond the pilot phase, Plan aims to reach 70,000 youth, including at least 70% girls and young women, living in rural, urban, and peri-urban areas of Niger, Senegal, and Sierra Leone.

**Targeting women.** There is much evidence that providing financial services for women has far-reaching positive impacts for their children's and family's health and well-being. Plan's microfinance programs are often targeted towards existing women's groups or provide support for establishing new women's groups. Through this method, Plan has been quite successful in targeting women, with the average proportion of women participants in Plan's microfinance programs at 83%. Plan's programs have helped to empower their women participants, and many of these women have gone on to take greater leadership roles in their communities.

In Tillaberi zone, Niger, 131 new women's groups have received training designed to reinforce their capacity to participate in microfinance activities. In Dosso, established groups in five villages have been encouraged to join together in a microfinance 'network' which aims to empower women's groups and give them greater negotiating power when seeking credit. Overall, Niger's microfinance program has been facilitated by the identification of 106 new community volunteers who help in training and giving advice to group members. The confidence this gives its members is illustrated by the fact that 98% of group members regularly participate and make contributions to the savings scheme.

In India, Plan has worked with CASP-Delhi to strengthen self-help groups as a safety net and a forum for women's economic strengthening and empowerment. 60 self-help groups with 800 women members are working to promote savings and income generation activities among their members. These groups have accumulated approximately \$10,000 in savings. Through networking, these groups have also been linked to local municipalities to strengthen them and facilitate access to government schemes. In addition, the government has given a loan of \$18,000 to 12 of these self-help groups.

Finally, since 2002, Plan China has supported local women's federations in setting up women's development associations. These associations make use of funds from Plan China to help poor people in project areas who cannot access financial services from existing banks to improve their family economic situation. In addition, these associations have received training in management and development to improve their operations.

***Partnering with Microfinance Institutions (MFIs).*** Plan's approach to microfinance has centered on partnering with existing microfinance organizations to leverage their expertise. Given the well-developed field of microfinance providers in many of the regions in which Plan works, Plan capitalizes on their expertise and works with these organizations to bring their services to rural, underserved communities where Plan works. In this way, Plan provides the organization with valuable access to the community, while helping to ensure that vulnerable communities are able to access financial services to support income-generating activities and their livelihoods.

**Case Study: Microfinance through the Youth Self Employment Foundation Model  
Tanzania, 2004-2009**

Since 2004, Plan has supported a five-year microfinance project in Tanzania through the Youth Self Employment Foundation (YOSEFO). The project has reached more than 2,500 clients and has great potential for expansion, as target clients, especially women, have shown high demand for its services.

An external evaluation was conducted in June 2008 in Buguruni and Vingunguti Wards within the Plan Dar Urban Project Unit. The results of the evaluation showed great success in many areas including:

- ***Reaching target clients:*** 95% of project clients had no prior access to microfinance services. The project was successful in reaching underserved populations.
- ***Business and technical training:*** 576 micro-entrepreneurs were trained, surpassing the project target. Clients interviewed expressed interest in even greater emphasis on business and technical skills training.

The project has identified three best practices which have facilitated the project's effectiveness:

- ***Partnering:*** Partnering with an MFI was found to be a sustainable approach to delivering financial services. However, the need for MFIs to more directly engage communities and children in project planning was noted.
- ***Solidarity groups:*** The use of solidarity groups to facilitate not only follow-up of loans but also to build cohesion in the community was key to the project's success. In YOSEFO's model, the group members guarantee each other's loans and are held responsible for repayment by other members.
- ***Flexibility:*** YOSEFO was flexible enough to allow clients to decide what they wanted to do with their loans. This flexibility gave clients an opportunity to be creative and innovative, and to invest in promising enterprises. It was found that some clients diversified their businesses, while others paid school fees and hospital charges.

**Case Study: Community Owned Microfinance Program (COMP)  
Banke district, Nepal**

Plan Nepal has partnered with Nirdhan Uthan Bank Limited (NUBL) to implement a Community-owned Microfinance Program based on the self-reliant group (SRG) model. The program has organized 12,725 members into 385 SRGs. The program has been quite successful in social mobilization, group formation, and microfinance operation. In some areas, more than 95% of clients have improved their livelihood situation through participation in the program. Loan clients surveyed earned incremental incomes of over Rs. 100,000 (\$2,100) per year and improved their livelihoods. The incremental income has been used for asset creation (land purchase, house improvement, purchase of consumer durables, livestock purchase), sending children to school, health care, clothing, and household consumption.

For example, in Haiti, Plan has provided start-up operating costs for five branches of Fonkoze, Haiti's largest microfinance institution which offers financial services to the rural-based poor. These branches provide a range of financial services, including solidarity group and individual loans to start or expand small businesses, as well as savings products geared towards the poor.

***Village Savings and Loans.*** Since 2003, the Village Savings and Loans approach has served as the centerpiece of Plan's microfinance interventions in Africa. The approach is operating in 15 African countries, with 3,182 Village Savings and Loan Associations benefiting a total of 70,000 clients. These associations have helped the rural poor, especially women, gain access to credit, thereby bolstering investment in health, education, and income-generating activities. Moreover, VSL activities have reemphasized the importance of helping communities appreciate their strengths and how to use those strengths as a starting point for their own development.

### VSL Highlights

**Malawi:** In Mzuzu, Plan has partnered with LISAP (Livingstonia Synod AIDS Program) to provide microfinance services to the community. 150 Village Savings and Loan Associations (VSLAs) have been established, and 2,250 VSLA members have benefited from these services.

Participation in VSL groups has helped to improve educational outcomes for participants' children. Mothers are now able to purchase uniforms and school materials for young children in primary school. Parents are able to access loans for school fees for children's secondary education; in some instances they have paid for technical training for youth who have completed secondary education. Moreover, three VSL groups have established nursery schools for their small children and orphans in the community, and the groups also contribute money from their social fund to feed the children. This success has led Plan Malawi's learning program to integrate VSL with early childhood care and development (ECCD), targeting women with young children living near Community Child Care Centers.

For women, participation in VSL groups has also increased their financial independence. They have gained respect from their husbands and children, and they have gained power to influence decisions made at household level. Women who were once vulnerable to men who offered money for sexual favors are able to say no; this has contributed to a decrease in sex-for-cash relationships that were once prevalent.

**Tanzania:** As of June 2008, the VSLA project had established 558 groups with 14,006 members in the two Program Units of Geita and Kisarawe. The members have saved a total of \$423,339, or an average of \$30 per person. These savings have allowed the members to face the current period of inflation with greater resilience. In addition, 9,290 of the members have accessed \$537,871 in loans.

The project also has a total of 74 community resource persons (CRP) who are paid by the group members an average of \$1.5 per session. This motivates the CRP to set up more groups, and allows the groups to demand quality services from the CRP.

**Uganda:** In partnership with CARE Uganda, Community Vision, and Rural Country Development Organization (RUCODE), Plan Uganda has facilitated the formation of VSLAs in the three program areas of Kamuli, Tororo and Luwero. To date, 537 groups with a total of 16,213 members (72% women) have saved a total of \$364,600. Members have used loans to upgrade homes, buy animals, obtain improved seeds, and start home-based businesses. VSLAs in Uganda have been able to achieve broader results as well.

For example, people living with AIDS have found renewed hope and acceptance through their membership in VSLAs. In addition, most groups maintain a social fund that can offer support to any member in case of an emergency.