

## **Does the Addition of Social Objectives to Microfinance Enhance Program Impact?**

### **Project background and significance**

Microfinance institutions (MFIs) differ in the extent to which they stress social objectives. Some organizations provide income generation suggestions, or encourage social cohesion through rules such as clients having to attend all functions at each others' homes irrespective of caste or religion. Other organizations eschew these objectives as unnecessary and choose instead to focus on a narrow financing model. Sometimes, the same NGO is engaged in both micro finance and social services and in many of these cases, there are questions within the NGO itself as to how much value these extra services add. Though these social features of an MFI have added costs, they may have significant added benefits.

There are two broad motivations for adding the delivery of social services to the provision of microfinance services. First, the provision of certain services such as business training or livelihood counseling can directly benefit the households as this would allow them to take up an activity with improved practices. These "plus" activities can provide customers with enhanced skills relating to important aspects of production, marketing, and financial management, which directly benefits the MFI as increased productivity of households improves repayment rates and reduces risk for the MFI.

A second and complementary motivation is that microfinance can be an effective and sustainable delivery channel for services which have high social impact and benefits. This is consistent with the overall objective of most microfinance institutions, which is to contribute to poverty reduction and development of their clients.

Finally, in a new environment of increasing competition within the industry and criticism of the industry, delivering non-financial services may have additional benefits for MFIs. Not only can providing unique and valuable non-financial services improve client satisfaction and loyalties, but it may also help to dispel external unjust criticisms that the microfinance institution is interested only in profitability rather than people.

At present, there are observational studies validating the benefits of microfinance combined with additional services. Yet there are no rigorous evaluations measuring the relative impact of microfinance only and "microfinance plus" on client well-being. Given the growing pressure on NGOs and MFIs to reach operational and financial sustainability to scale up services to reach a greater number of poor, it is imperative for MFIs, NGOs, donors, and policy makers to know the benefits of social interventions which could be undertaken along with microfinance.

The objective of this study is to measure these benefits and to determine if incorporating social services with financial services increases the impact of microfinance.

### **Programme description**

Jeevika livelihoods support is an NGO in Jabalpur, MP. Jeevika provides microfinance

services to poor people in block and town areas of Jabalpur. They have recently started their operations in urban areas too. In last one year Jeevika has helped 3000 women with its microfinance program. The overall portfolio, as of June 30, 2007 is just over 1.3 crores, with an outstanding of 78 lakhs. On July 31, 2007 Jeevika's microfinance operations have been sold to Sonata Private Finance Limited, an Allahabad based NBFC. As per present plans of Sonata, the scale of microfinance program is going to double in coming six months.

Sonata, in collaboration with CMF, has agreed to start a "functional literacy and awareness program" for its members, covering critical gender issues, including women's health, child education, local government participation, and entitlements.

The functional literacy and awareness program will be developed by a team of experts. These experts would come from partner organizations that have been identified for development of the program. The program development will be done in two phases. In the first phase, a team of resources from partner organizations will be put to help develop the module. The core team will comprise 4 or 5 people with experience working among women of rural communities. As of now, the program development team is being benefited from:

1. Narendranath, PRADAN, New Delhi
2. Ashish Gupta, Livelihood consultant and CEO of Jeevika
3. Madhumita Sarkar, gender expert from the MOLD team (Monitoring Organizational Learning and Development) at CARE India
4. Amitabh Pandey, Faculty of Anthropology and Livelihoods at Indian Institute of Forest Management, Bhopal
5. Saumya Bhaumik, an independent consultant on legal issues and violence, and
6. Sejal Dand/Jahnvi Andharia, ANANDI (Area Networking and Development Initiative), cited as one of Time's 2003 Asian Heroes for her work bringing education, health care, and microcredit to hamlets among tribal women in Gujarat.

In the second phase of module development, this consultant team will use the results of the first phase and their expertise to design the module.

### **Research Design and analysis**

This study takes advantage of the fact that Sonata is expanding in new village to introduce a randomized research design. While the unit of intervention will be a cluster center catering to 3-4 treatment centers, randomization will be done at the village level. Control villages, randomly chosen among a pool of villages in which Sonata plans to expand, will receive only microfinance services, while in the treatment villages, the impact of additional, non-financial services will be considered. In addition to microfinance services, treatment villages will receive a "functional literacy and awareness program" covering critical gender issues, including women's health, child education, child marriage, local government participation, and violence.

Through separation of microfinance and "microfinance plus" villages for two loan cycles, we will distinguish progress through indicators of social well-being as well as income.

### **Contributions**

This study will contribute to the debate on whether microfinance institutions should undertake non financial interventions as well along with their micro credit programmes. The random assignment of treatment and control makes it possible to rigorously examine the added benefit of such an intervention. The study will also help determine to which extent micro credit, alone, helps “empower” women. The project will also contribute to advancing knowledge by finding and testing innovative ways to measure complex variables such as women’s empowerment.

As much as measuring impact, a central aim of this study is the development of a sustainable, comprehensive intervention in close collaboration with Sonata and domestic and international experts/practitioners. The intervention will be designed to synthesize best-practice knowledge, field-level challenges, and local context. The results of the evaluation will be disseminated to NGOs and MFIs seeking to add social programs to their catalogue of microfinance services, or to those seeking to improve on existing programs.

### **Timeline**

- The groundwork for this project started in June 2006.
- In September 2006, a workshop on “Sustainable Micro-Finance for Women's Empowerment” was co-organized by the CMF and Dr. Linda Mayoux, an international consultant from Cambridge specialized on gender and microfinance. During this workshop, feedback was taken from participants on the project’s objectives.
- In April, 2007 piloting and collection of existing material for module development was completed
- The Baseline and intervention will commence in starting months of 2008.
- The project is expected to end in 2009.