BUILDING BETTER LIVES

SUSTAINABLE INTEGRATION OF MICROFINANCE WITH EDUCATION IN HEALTH, FAMILY PLANNING AND HIV/AIDS PREVENTION FOR THE POOREST ENTREPRENEURS

A discussion paper by Christopher Dunford, Freedom from Hunger
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Contact Information:
Freedom from Hunger
P.O. Box 2000
Davis, CA 95617, USA
1-530-758-6200
cdunford@freefromhunger.org

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Executive Summary

It is widely acknowledged that the very poor need more than microfinance to address the causes and conditions of their poverty. Ideally, the poor would have access to a coordinated combination of microfinance services and other development services to improve business, income and assets, health, nutrition, family planning, education of children, social support networks, and so on. The question is how to ensure a "coordinated combination" of appropriate services, especially in rural communities and other communities where multiple services are simply unavailable.

Microfinance practitioners are often motivated to provide nonfinancial services to their clients, because they recognize the need and hear the demand. However, the legitimate concern for sustainability, interpreted as the financial viability of the microfinance service as a business, has made practitioners very cautious about nonfinancial add-ons. They believe that add-ons can only be a drag on the drive for sustainability. Where other, nonfinancial service organizations can provide these add-ons for the same clients, some microfinance practitioners have fostered referrals and common points of service with their nonfinancial counterparts. But most microfinance institutions feel compelled or prefer to focus on the financial needs of their clients and do not attempt to meet their nonfinancial needs.

On the other hand, group-based microfinance provides a good opportunity to provide low-cost education services needed by the poor, if only to improve their performance as microfinance clients. This is especially true for village banking and related delivery systems that bring large groups of relatively poor clients together in regular meetings. Good, nonformal adult education techniques can be used effectively at the regular meetings to promote changes in personal behavior and in child-care practices and also to promote awareness of and confidence in whatever good-quality health services are available locally. Such education technologies can also improve business skills that enable clients to put their loans to more productive use and generate more profit and savings. A variety of education topics can be covered effectively.

One purpose of this paper is to provide diverse examples of microfinance institutions that have responded successfully to the challenge of integrating microfinance with education, without compromising the sustainability of their microfinance and overall operations. Special attention is given to integration of microfinance with health education for very poor women. They and their children are very vulnerable to health and nutrition problems that threaten women's abilities to contribute economically to their households, even families'abilities to survive. There is critical need for innovative integration of microfinance with promotion of family planning and HIV/AIDS prevention. Pioneering examples are described.

Some institutions create integration by providing microfinance and education as *parallel* services, delivered to the same groups of clients by *different* staff, each specializing in one or the other service. BRAC in Bangladesh and PRO MUJER in Bolivia are described as detailed cases to illustrate this parallel service delivery approach. Both institutions depend on revenues other than their financial margin on credit operations to maintain their educational staffs and related expenses, though they can provide some cross-subsidy from microfinance to education.

This paper also illustrates the feasibility and effectiveness of a *unified* approach in which microfinance and education services are delivered to village banks by the *same* staff. The overall cost of unified delivery of the two services is considerably less, for the simple reason that one staff in the unified model does the jobs of two different staffs in the parallel model. FUCEC-Togo, FOCCAS Uganda and CRECER in Bolivia are described in detail to illustrate the unified model in action. They (and similarly designed unified delivery systems) have achieved, or are likely to achieve in the near future, full recovery of their operating and financial costs for the unified service. The cross-subsidy from microfinance to education is or can be sufficient to sustain the education. Unification with education adds only 6 to 10 percent to the cost of village banking alone. In some cases, at least, the education also seems to give these institutions some competitive advantage with clients over microfinance-only institutions.

For the sake of efficiency (to achieve sustainability), the unified approach delivers microfinance and education as a single package to village banks. The education is designed to meet prominent local needs and demand, but clients are not given the choice to reject the education component of the package. Some observers have questioned the ethics of not allowing choice, yet there is considerable evidence that the education is appreciated by clients and even that they opt for the unified service when given the chance to switch to microfinance-only institutions.

Certain impacts can be expected from microfinance but not education and vice versa. Their combination yields a greater range of impacts and possibly even some synergy of impact. Definitive, direct comparison of unified delivery with parallel delivery or microfinance alone or education alone is yet to be successfully carried out, due to considerable methodological challenges. However, several careful studies of economic, health, nutrition and empowerment impacts of the unified service demonstrate no less impact than was found in similar studies of microfinance or education alone. There has been concern about diminished impacts due to poorer quality of services delivered by generalists rather than specialists in those services. But the results of the impact studies indicate that quality of the two services does not have to be compromised when delivered by one and the same person to a village bank.

The multi-sectoral tasking of service delivery staff gives unified-service providers a major advantage for achieving sustainability of both education and microfinance. But it is also a critical challenge to an institution. The self-sustaining unified approach cannot deliver as broad a range of services to the poor as parallel delivery systems with access to long-term external funding. For unified delivery, it can be difficult to maintain balance between and the quality of the two types of service in the recruitment, training and supervision of staff. Field staff and their managers have to respond to different demands and expectations from two different sectors of development (or more than two, depending on the range of education topics). Donors and other stakeholders tend to hold up one sector as more important than the other. Management information systems over-emphasize the importance of financial performance of the institution vs. economic and social impact for the clients. These internal stresses and contradictions can be very difficult to manage. The will to unify service delivery, whether it comes from commitment to a philosophy of development or simply lack of other options or both, is essential for success.

There exist ample and promising opportunities for microfinance providers to create integration with other development services, through either parallel or unified delivery of services from different sectors of development. In terms of impacts for the poor, neither delivery option is inherently superior. In terms of institutional issues, each has its advantages—especially the potential range of services for parallel delivery and potential financial sustainability for unified delivery—and its disadvantages—especially the financing and coordination challenges for parallel delivery and the management and staffing challenges for unified delivery. The best choice depends on local options for providing diverse services and the institutional will to provide more than microfinance.

I. INTEGRATING MICROCREDIT WITH OTHER DEVELOPMENT SERVICES

The Challenge

The problems of the poor go well beyond money or things. They suffer a broader syndrome of disadvantage. Access to financial services is powerful because it offers people opportunity—a greater range of options to change their lives. But credit, even combined with other financial services, addresses only one factor of many constraining the poor—lack of liquidity. Just as they have been bypassed by formal banking and other financial institutions, the poor have little or no access to education, health and other services to build their "human capacity."

The diversity of needs of the poor are reflected in the seven distinct but interlocking goals of international development[1] established by the agreements and resolutions of the world conferences organized by the United Nations in the first half of the 1990s:

1. Reduce the proportion of people living in extreme poverty by half between 1990 and 2015.
2. Enroll all children in primary school by 2015.
3. Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005.
4. Reduce infant and child mortality rates by two-thirds between 1990 and 2015.
5. Reduce maternal mortality ratios by three-quarters between 1990 and 2015.
6. Provide access for all who need reproductive health services by 2015.
7. Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015.

All seven contribute "toward a world free of poverty and the misery it breeds." All recognize the need to provide greater support to women in their productive and reproductive roles, both as key beneficiaries of development services and as central players in using them to build human (physical and mental) capacity in their families and communities.

Very poor women—especially in rural areas—face tremendous obstacles: social and geographic isolation, illiteracy, lack of self-confidence, limited entrepreneurial experience and major health and nutrition problems for themselves and their families. Addressing these obstacles (if only to cultivate better financial-service clients) requires improving people's social support networks and their personal and communal knowledge, skills and health practices, as well as access to good-quality services to support good health, food production, cash income and asset accumulation. Public health researchers have long appreciated that increasing income and assets alone is a relatively slow and insufficient strategy for combating many serious ills, such as child malnutrition, the spread of HIV/AIDS and women's lack of choice in determining the number and timing of pregnancies.[2]

Education can be a powerful partner of financial services, particularly if education engages individuals as decision-makers in their own learning—for personal and communal change and for informed use of whatever good-quality services are available. Group-based lending/saving services in particular provide an unusual opportunity to provide transformative educational experiences along with financial services.

Integration: Opportunities for "Economy of Scope"

There should be efficiencies in operations and even synergies of benefits to be gained by integrating different services intended for the same people. Perhaps another service or two can be delivered along with microcredit,* perhaps by the same person. Among microcredit practitioners and donors, however, there is a strong bias against such integration. This is a reaction to the history of problems in "integrated rural development" programs and other idealistic models of multiple-intervention responses to the interlocking needs of poor communities. Drawing on the perspective of the for-profit business world, the microcredit community holds that specialization in one type of development service is necessary for development effectiveness, service efficiency and institutional sustainability. "Let bankers be bankers," says one commentator, and let others with different skills and experience take care of the other needs and wants of a community. Why should those setting out to create a microcredit program, or more broadly a microfinance institution, feel compelled to offer services other than those that microfinance specialists know well how to offer? The question is logical, and the logic can appear persuasive.

Microfinance is not alone in this logic. Other sectors may be less adamant but are no less uncomfortable about trying to be "all things to all people" and all their problems. This is the perspective of professionals seeking to focus on what they have been trained to do best. There is a different and broader perspective, however, that of the program designer who gives priority to a development objective, such as alleviating the burdens of poverty on women and children. This designer is not satisfied with planning for economies of scale for a single service, because there is obvious need, even consumer demand, for multiple services. The designer is trying to achieve "economies of scope"—packaging two or more services together to minimize delivery and management support costs and to maximize the variety of benefits for people's multiple needs and wants.

There are three common scenarios for integrating microcredit with other services:

- ***Linked* service delivery by two or more independent organizations operating in the same area.** Financial services are offered by a specialist microfinance institution at the same time as nonfinancial services (possibly for health and other sectors) are offered by one or more independent specialist or generalist organizations—to the same people in need. When there are several development service providers in a target area (as in many urban and peri-urban areas), an organization reasonably may choose to specialize as a business-like microfinance service provider. Ideally, different services offered by different organizations would coordinate their marketing, including delivery at common points of service and mutual referrals, as clients' needs for other services arise. Many

* For the purpose of this paper, any reference to microcredit should be understood to refer to programs that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons.

specialist microfinance institutions fall into this scenario; few reach for the "ideal" of coordinated marketing with nonfinancial service providers. One long-standing example is the close coordination of BRAC's Rural Development Program (microfinance provider) with Government of Bangladesh (and World Food Program) food distribution to the 'hardcore' poor. The relationship is mediated through the intermediary IGVGD (Income Generation for Vulnerable Groups Development) program, jointly administered by BRAC and the Government of Bangladesh.[3]

- ***Parallel* service delivery by two or more programs of the same organization operating in the same area.** A generalist or multi-purpose organization (often a grant-mobilizing local, national or international private development organization) offers microfinance services through a specialist microcredit program staff at the same time as offering other sector services through different program staff of the same organization—to the same people in need. If there are few available services in an area and an organization can afford a long-term commitment to provide two or more services with different specialist staff, then it makes sense to deliver a variety of complementary services in parallel. BRAC again provides a good example of this scenario in action (see "Three Case Studies" in Appendix A). The Grameen Family of Companies is another good example.

- ***Unified* service delivery by one organization, one program, one staff.** The same staff of the same organization offers both microcredit and other sector services—to the same people in need. When the people in need have access to few, if any, other development services, as in many rural communities, and the organization cannot afford a long-term commitment to provide two or more services with different specialist staff, it reasonably may choose to field only one set of staff tasked to provide microcredit with another service. The organization even may seek to hold its costs to a level it can sustain with revenue generated by the unified service itself. *Credit with Education* [4] providers are good examples (see details in the next section of this paper and the case of FUCEC-Togo in Appendix A).

Of course, there can be hybrids of these scenarios. For example, a unified, multi-sectoral service can be linked with other complementary services. One emerging example in Bolivia (around Lake Titicaca) is the joint planning and coordination of services offered by Crédito con Educación Rural (CRECER), a provider of *Credit with Education* and Consejo de Salud Rural Andino (CSRA), a rural health service provider.

The unified *and self-financing* scenario is the most promising for sustainable delivery of multiple services, but it is also the most demanding. The designer is attempting to build (or fit into) a sustainable, business-like institution that can support the unified-service delivery system for many years to come. Subject to the hard constraints of sustainable institution-building, the designer is trying to get more development "bang" for the development "buck." The assumption is that the same staff can deliver two or more different sector services, with greater overall efficiency and without compromising the individual effectiveness of the services.

Is this unified, self-financing model possible? Is it feasible? The answers appear to be "yes" to both questions when applied to microcredit and education delivered together (*Credit with Education* illustrates this scenario in action). But only certain types of microcredit and certain types of education offer this opportunity for unification. Is this unified, self-financing approach recommended for everyone providing suitable microcredit services? The answer is "no." This approach is only for those whose objectives call for providing multi-sectoral services to address multiple needs/wants of the very poor. It is also only for those committed to long-term dependence only on the revenue generated by the unified service itself (i.e., independence from operating grants). In other words, those committed to self-sustaining "poverty lending" (reaching out to the poor with financial services) *and more* will find this unified approach worthy of their consideration.

The first purpose of the rest of this paper is to provide evidence of the feasibility and effectiveness of the unified, self-financing model for integrating different sector services. The evidence comes almost solely from integration of microcredit with health-related education. Other types of education (e.g., for business management, leadership development, community action, self-confidence building and other topics) are integrated successfully with microcredit through similar application of the unified, self-financing model. Much of what has been discovered regarding feasibility of integrated microcredit and health education services applies to any sort of microcredit-education integration. However, in-depth research studies of impact have been carried out only for health/nutrition education integrated with microcredit.

The second purpose of this paper is to explore common challenges to the unified, self-financing model for integrating different sector services. The intention is not to "promote" this model, but to offer balanced information about strengths and weaknesses and thereby allow an informed choice by those whose commitment to multiple sectors of service to the poor leads them to seriously consider this model for their own organizations to implement.

II. INTEGRATING EDUCATION WITH GROUP-BASED LENDING

Group-Based Lending: An Opportunity for Educating the Poor

"Poverty lending" is a form of microcredit characterized by its clientele: the subsistence-level, pre-entrepreneurial, but economically active poor, usually women. These are the very people who most need information and support, as well as money, to improve their lives. Experience seems to show that *group-based lending* mechanisms are usually the most effective and efficient means to deliver financial services to this clientele while minimizing transaction costs and risk to the provider.

Group-based lending also provides a good forum for education. The borrowers' meetings provide an opportunity for regular face-to-face contact with an educator. The solidarity structure and joint guarantee mechanism foster a supportive atmosphere of collective self-interest. Women's successful management of the loans is likely to boost their confidence and thereby their willingness to try new practices for better health and other benefits.

An additional service, such as education, imposes additional delivery costs. However, the marginal cost of the education can be reduced when the regular (weekly, biweekly, monthly) repayment meetings of poverty-lending programs serve as the forum for the education. Moreover, the marginal cost can be made quite small when the same field staff delivers both financial and educational services at the same regular meetings (the unified model).

The Grameen Bank, with its famous "Sixteen Decisions," may have invented the unified delivery model.[5] Grameen's integration of financial services with social change promotion has inspired a variety of integrated-delivery systems whose common bond is **a determination to make education work—cost-effectively—within the context of group-based lending to the poor.** They share the conviction that group-based lending models have social as well as economic potential and that this dual potential must be realized in order to have significant impact on poverty.

A 1999 survey[6] of practitioner organizations (see Box 1) revealed that at least 35 practitioners around the world were committed to integrating education with group-based microcredit through either parallel or unified delivery within the same organization. Two-thirds of these organizations were operating in Africa. BRAC alone swamps the other respondents with its membership of 3.5 million. Among many others not included in this survey for various reasons, Grameen Bank should be counted as a provider of unified microcredit and education to millions of clients. Clearly, there is a great deal of experience with integration, and even with unified delivery, among a variety of practitioners serving, in aggregate, a large number of relatively poor people, mostly women.

The most common kind of group-based lending integrated with education is "village banking." First developed for Latin America by the Foundation for International Community Assistance (FINCA) in the 1980s, village banking is, in effect, a generic version of Grameen Bank's approach to microcredit, with a more decentralized management structure adapted to more dispersed populations than those in Bangladesh. In the 1990s, a large number of nongovernmental organizations adapted village banking to varied conditions all over the developing world.[7]

Where village banking services are made available by a local organization, anybody wanting a loan to invest in an income-earning activity may come together with trusted peers to form a "village bank" (different organizations use different names, like "community bank" or "trust bank" or "credit association"). The number of members cannot be too few (otherwise the group cannot be served economically) or too many (making it impractical for all members to participate in oversight and decision-making). Typically, village banks have 20–40 members, mostly or all women.

After training the new members to manage their own village bank within specified rules, the local organization makes a loan (normally for four to six months) to the village bank as a joint-liability group. The members then break the large loan into small loans (initially about $50 to $100 each) to the individual members for investment in their individual microenterprises. The members guarantee repayment of each other's loans, so they must all agree that each borrower is capable of making a sufficient profit from the proposed income-generating activity to repay the village bank with interest. If the village bank pays its entire loan back to the local organization, on time and with interest, it becomes eligible immediately to receive a new, usually larger, group loan. In most village banking programs, individual members may increase their borrowing incrementally up to a maximum of about $300 per loan.

Borrowers usually invest their loans in activities in which they are already skilled and need no technical assistance, such as food processing and selling, raising chickens, operating a small shop, and making or buying and selling clothing. It is crucial that each borrower earn enough cash to pay back her loan with interest, deposit some personal savings, and have enough money left to purchase food and other necessities for the family. Village bank members meet regularly (typically weekly, biweekly, or monthly) to manage the affairs of their group, including making regular installment payments of principal and interest on their loans and regular deposits of personal savings.

Reinforced by their successful use of credit and their solidarity with others in their village bank (which is an educational experience in itself), the poor expand their awareness of the possibility of improvements in their lives. They become more ready to learn more and change more. And **the regular meetings of the village banks can respond to the learning readiness of the members by giving them new information and support for change**.

Box 1 ***Practitioners Linking Education with Group-Based Lending***

Twenty-four practitioners (not including BRAC) reported detailed statistics (as of December 1999) regarding their programs that integrate education with group-based microcredit.

- In aggregate, these 24 practitioners were providing integrated services to 210,008 individual clients, approximately 95 percent women and 41 percent living in rural communities with less than 10,000 inhabitants.
- Seventeen of the organizations used the village banking model of group-based microcredit (typically 20–40 clients per group), and seven used the solidarity group model, averaging five clients per group.
- Twenty-three organizations deliver education sessions at the same meetings where financial transactions occur.
- All 24 require their clients to participate in education as a condition for receiving loans.
- Only six of the organizations require clients to take loans in every "loan cycle" as a condition for group membership and access to education.
- Thirty-eight percent of the organizations responding to the question report their group meetings last from 60 to 90 minutes; 48 percent report meetings take 90 to 120 minutes.
- In 38 percent of the organizations responding to the question, education is delivered exclusively by the same field staff who deliver financial services. In 29 percent, education is done exclusively by group members trained for this purpose. The balance of the organizations use a mix of credit staff and group members, or they use staff assigned solely to deliver education.
- In order of frequency cited, organizations deliver education in the following topics: children's health (96%), children's nutrition (78%), family planning (74%), women's health (70%), calculating profit and accounting for business revenues and expenses (65%), group management skills (65%), marketing goods or services (61%), and selecting an appropriate income-generating activity (52%).

Unified Delivery of Village Banking and Health Education—A Detailed Case

The most common model for unified delivery of education with village banking is *Credit with Education*.[8] A part of each regular meeting (preferably twenty to thirty minutes) is set aside for a "learning session." The *Credit with Education* field agent (usually a moderately educated person from the local area) is responsible for recruiting new village banks, training the members to manage their own affairs as a nonformal cooperative, and attending the regular (usually weekly) meetings to oversee and assist the financial transactions of the group and to facilitate the learning session.

The field agent's role in education is to introduce a topic, help participants understand its relevance to issues in their lives, offer basic information about practical changes they can make, identify obstacles to such change, encourage any participants who have mastered these obstacles to share their successful experiences, and promote solidarity to help each other persist in their efforts to change. The field agents are not experts in the education topics. Their training focuses on techniques for presenting simple information messages and on facilitation skills for drawing the participants into learning from each other as much as from the field agent.

Effective education of adults goes beyond simply imparting information. It builds on their wealth of life experiences. It helps them see new ideas in the context of what they already know or believe. Village bank members can identify poverty-related problems they confront in their daily lives and become motivated to develop and use locally appropriate solutions. Field agents have to be carefully recruited, trained and supervised for the specific purpose of becoming effective facilitators of adult learning.

The topics addressed in learning sessions range from village bank management to the basics of microenterprise management to the improvement of health and nutrition of women and children. Each *Credit with Education* practitioner organization promotes a different mix of topics in its village bank meetings. Choice of topics depends on organizational objectives, local needs and demand, availability of training and support for delivering the topic (e.g., family planning), and availability of good-quality local services (e.g., immunization; primary health clinics), the use of which can be promoted by the education. Typically, during a loan period of four to six months, one or two topics are explored in depth in a series of learning sessions, each building on the last. Several practitioners alternate between two topics, a learning session on a health topic, the next on microbusiness and group management, then back to health, from one meeting to the next over the loan period.

Each *Credit with Education* practitioner develops its own operational system for self-financing, unified delivery of microfinance and education to poor women. The FUCEC-Togo case in Appendix A offers a specific example of *Credit with Education* in the institutional context of credit unions. This credit union federation and its member credit unions offer *Credit with Education* as one of several financial service products. *Credit with Education* gives the FUCEC-Togo credit unions the opportunity for outreach to serve people that otherwise could not join a credit union, specifically poorer women in more remote rural communities.

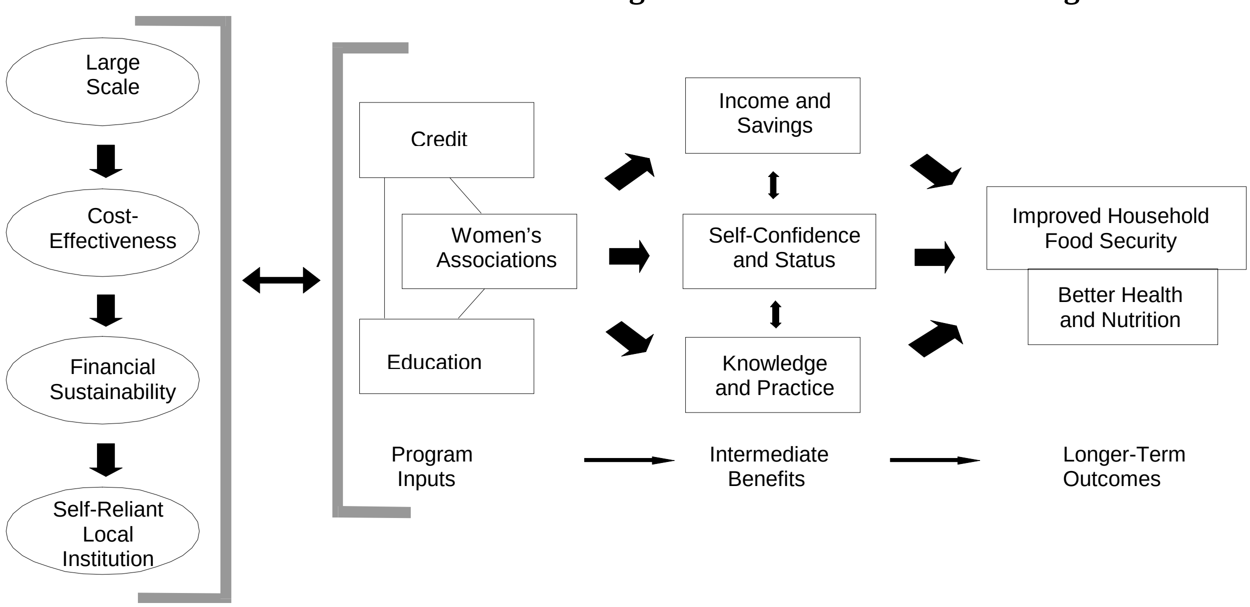
III. EVIDENCE OF IMPACTS ON CLIENTS AND INSTITUTIONS

Impact Studies of *Credit with Education*

In its original design, the education component of *Credit with Education* aimed to improve health and nutrition of children under five years of age, as well as income and assets of poor families (Figure 1). The assumption was that women would borrow capital at affordable rates, build their productive assets, accumulate savings and build their self-confidence. These outcomes and impacts are the same as those expected from any well-designed and well-implemented microcredit program. *In addition*, the education would help improve child health and nutrition to an extent not expected from pure microcredit programming. Potentially, the credit and education components would reinforce each other by addressing both the informational and economic obstacles to better health and nutrition. In addition, as Figure 1 also indicates, these impacts are intended to be achieved through a cost-effective delivery system that local institutions can bring to scale and financially sustain.

Figure 1

The Original *Credit with Education* Design



Several studies of *Credit with Education* have been carried out in recent years[9] to evaluate the original design. In particular, carefully controlled, multi-year studies with the same research design were conducted in the programs of the Lower Pra Rural Bank in southwestern Ghana and of CRECER on the *altiplano* of Bolivia.[10] These two studies provide the bulk of the findings summarized below. Comparisons were made between women (and their youngest children up to three years old) with one to three years of participation in *Credit with Education* and women in either baseline or control groups. Several other studies, in Burkina Faso, Ecuador, Honduras, Mali, Tanzania, Thailand and Uganda, also contribute interesting results.

Impact of the Financial Services

Similar to studies[11] of microcredit-only programs, evaluations of *Credit with Education* demonstrate increased levels of livelihood security among clients—more regular earnings throughout the year, asset accumulation and consumption-smoothing. Here are some examples of impact evidence:

- **Nonfarm Income.** In Ghana, between the baseline and follow-up periods, *Credit with Education* clients enjoyed a significantly greater increase in monthly nonfarm earnings—almost double—as compared to nonparticipants in the same communities or residents living in control communities. Clients most commonly attributed their increased incomes to business expansion, reduced input costs as a result of buying in bulk or with cash rather than on credit, and new activities or products made possible by access to loans.
- **Assets.** In Burkina Faso, after approximately three years, borrowers increased the scale of their income-generating activities by an average of 80 percent, and roughly one-third of the respondents more than doubled the scale of their activity. Many women were found to have made significant investments in increasing or improving their productive capacity by buying fixed assets, such as aluminum and clay cooking pots, and by establishing regular market sites.
- **Shocks.** In Mali, program participation enhanced households' ability to reduce risk and deal with periods of crisis or economic difficulty. Clients participating for one and two years were significantly less likely than incoming clients to have experienced a period of acute food insecurity or to have been unable to conduct their enterprise due to a lack of money in the preceding 12 months.

One should expect these impacts on women's economic capacity in any well-designed and well-implemented microcredit program, regardless of the addition or lack of extra education. The addition of education does not appear to diminish the ability of village banking to produce these significant impacts sought in all poverty-oriented microcredit programming.

Impact of the Education Services

Similar to studies[12] of stand-alone health/nutrition education programs, the findings from *Credit with Education* programs demonstrate positive changes in clients' health knowledge, self-reported practice and some health outcomes. Here are some examples of impact evidence:

- **Breastfeeding.** In Ghana, between the baseline and follow-up periods, there was a significant and positive increase among participants in giving their newborns the first antibody-rich milk, colostrum, rather than discarding it, relative to the two nonparticipant groups. Mothers in the program also exclusively breastfed their babies longer—closer to six months—and thus did not unnecessarily expose them to contaminants found in food or liquids other than breastmilk. And, despite their involvement in loan-financed activities, clients did not stop breastfeeding their children earlier than did nonparticipants, and they were even significantly less likely to use feeding bottles.

- **Complementary Feeding.** In Burkina Faso, women participants learned how to prepare a thicker porridge and when to begin feeding it to their young children. In the recent past, a child could easily go without food besides breastmilk until two years of age; women in the program were more likely to prepare special porridge and entice the child to eat solid food earlier.
- **Diarrhea Treatment.** In Bolivia, the baseline research indicated a key topic for the education component was the need for rehydration of children suffering bouts of diarrhea. Many mothers explained that when children had diarrhea they withheld or reduced liquids, thinking they would only exacerbate the problem. They gave dry food, such as bread, instead. Between the baseline and follow-up, a significant and positive difference was found in the percentage of clients reporting they gave children with diarrhea "more liquid than usual" (liquids of any kind, including breastmilk) as compared to nonparticipants.
- **Immunization.** Also in Bolivia, participants' one-year-old children showed significant and positive improvement in the percentage having the DPT3 vaccination relative to nonparticipants' children. This is particularly noteworthy because there is typically a drop-off in immunization coverage for those vaccinations given later in the series. This difference may indicate a positive effect of the program by encouraging mothers to have their children complete the full immunization series and in some cases by inviting health workers to provide these immunizations at the borrower groups' regular meetings.

One should expect such impacts on mothers' knowledge, practices and outcomes in any well-designed and well-implemented health/nutrition education program, whether or not it is piggy-backed on a microcredit-service delivery system. It appears that unification with village banking does not have to diminish the power of adult education. The Ghana study also showed that health/nutrition behavior-change promotion from multiple sources can be mutually reinforcing when coordinated and focused on the same population. Mothers reported that reinforcement from several trusted sources—local health center staff, the *Credit with Education* field agent, as well as the other Credit Association members—led them to try exclusively breastfeeding their babies for a longer period. This change represented a radical departure from the common practice of giving newborns water and other drinks in their first days and weeks of life.

Combined Impact of Financial and Education Services

Ideally, the possibility of a synergistic effect of offering credit and education together would be evaluated with a research design comparing the relative impacts of stand-alone credit and education interventions versus parallel or unified delivery strategies. Unfortunately, few research efforts have taken on the considerable practical challenges of this ideal design.[13] Some of the impacts evident in evaluations of *Credit with Education* programs might be the effect of either the financial or education components or both working together. Here are some examples of evidence of possible synergistic impacts:

- **Women's Empowerment.** Building on the work of Schuler and Hashemi,[14] Freedom from Hunger defined women's empowerment in terms of 1) women's self-confidence and vision of the future; 2) their status and bargaining power within the household; and 3) their status and networks in the community. In both Ghana and Bolivia, there was evidence that access to the financial and education services had positively impacted women's self-confidence and status in the community. Participants in Ghana rated themselves significantly more confident (than did nonparticipants) that they would earn more in the future and that they could prevent their children from getting diarrhea and other illnesses. In terms of involvement in community life, participants in Ghana were taking on more active roles in community ceremonies, such as funerals, and participants in Bolivia were running for and holding offices in local governing bodies. In both countries, participants were significantly more likely to have given others advice both about practices for good health/nutrition and better business. There was little evidence, however, of women's increased bargaining power within the household (no significant increase in influence on a number of household investment decisions, with the exception in Bolivia of spending on house repairs and in Ghana on whether or not children went to school). One to three years of program participation by women may be too little to change deeply embedded power relationships and expectations within households.

- **Children's Diet.** Researchers from the Noguchi Memorial Medical Institute in Ghana conducted a dietary intake study of children of *Credit with Education* members and also nonparticipants. They found that the dietary quality of the foods given to participants' children was relatively higher. Also, the estimated caloric intake was significantly higher.[15]
- **Children's Nutritional Status.** Measurements of the same children in Ghana showed the nutritional status of participants' one-year-olds—both weight-for-age and height-for-age—also significantly improved relative to the children of residents in control communities. For example, the percentage of participants' children categorized as malnourished, based on height-for-age, decreased by eight percentage points between the baseline and follow-up periods, while the percentage of malnourished actually increased in control communities.

Impact on Client Satisfaction and Demand

Client satisfaction with *Credit with Education* has received less systematic attention. When asked if they do or do not like *Credit with Education*, clients overwhelming say they do. Without reference to alternatives to *Credit with Education* (other than no services at all), it is difficult to assess the degree of satisfaction—except in terms of successful repayment and repeat borrowing over time, which are both relatively high in *Credit with Education* programs.[16]

There are some useful anecdotes indicating women are satisfied with the unified services received, even when opportunities or social pressures might persuade them otherwise. In Bolivia, during the recent "renunciation of debt" (microcredit borrowers were politically organized to purposely default *en masse* to protest the high interest rates and repayment requirements of local microfinance institutions), CRECER clients remained loyal to CRECER and continued their on-time repayment. When asked why, many clients told CRECER staff, "CRECER cares about us. They are not just here to collect our loans. They talk with us and give us education."

In some locations in eastern Uganda, women can now choose from two or more microcredit providers. The clients of the local *Credit with Education* provider, FOCCAS Uganda (Foundation for Credit and Community Assistance), have chosen to stay with FOCCAS. They told FOCCAS staff this is "because of the education."

In Burkina Faso, the RCPB (Réseau des Caisses Populaires du Burkina) provides *Credit with Education* as one of several services or products offered by this network of credit unions. RCPB management believes that providing education with its village banking service gives it a competitive advantage over a national organization that provides village banking alone to the same communities.

All three examples reflect not just overall satisfaction with the unified service but specific appreciation of the education. The degree of satisfaction with the education was investigated in the impact studies[17] in Bolivia and Ghana, but with only one question: "How useful have you found the information in the health/nutrition education sessions to be?" Of 71 respondents in Bolivia, 61 percent said, "Very useful," and 37 percent said, "Useful." Only one said, "Not very useful" (and one didn't know). In Ghana, 67 percent of 101 respondents replied, "Very useful," and 27 percent replied, "Useful."

Several lines of evidence allow assessment of the relative value that clients place on the separate components of the *Credit with Education* service package (group dynamics, loans, savings, health and nutrition education, and better business education). Although clients are initially most attracted by the loans, over time they increasingly value the education. For example, when asked what they liked best about the Kafo Jiginew *Credit with Education* program in Mali, as many two-year clients mentioned the education as mentioned the loans.[18]

A more recent study[19] of the Kafo Jiginew and Nyèsigiso credit union federations in Mali surveyed new members of eight credit unions that had been providing *Credit with Education* services for four years. This period was considered long enough for *Credit with Education* members to "graduate" to traditional individual credit union membership (as *Credit with Education* members, they are only associate members of the credit union, through the group's membership, and do not have access to the other credit union services). The survey determined which new individual members of credit unions were coming from *Credit with Education* groups and whether or not they had left those groups upon joining the credit union directly. Of the 207 new women members surveyed, 35 percent had come from *Credit with Education* groups, 24 percent choosing to maintain their participation in those groups and 11 percent having left those groups.

They were asked why they chose to continue participating in their *Credit with Education* groups as well as become individual members of the credit union, or why not. Here are the most frequently cited reasons for continuing participation in *Credit with Education* (48 women responding):

• Like the solidarity provided by the group	96%
• Like the education	91%
• Like the opportunity for more than one loan at a time	89%
• Want to save with their group	85%
• Want other *Credit with Education* services	34%

Those who left their groups as they joined the credit unions directly (21 respondents) mostly cited their desire for financial services and products better adapted to their needs, such as larger, longer-term loans at lower interest rate with less frequent repayments. Only 10 percent cited dislike of the frequent meetings or difficulties with other group members. None mentioned problems with the education.

Freedom from Hunger offers new *Credit with Education* providers a "first cycle assessment" after repayment of the provider's first round of loans and education to village banks. These assessments include systematic group interviews with village bank members to determine why they joined the program, what they liked best about the services offered, what they liked least and what should be changed and how. For example:

- In Bénin (March 2001), the most frequent response of new clients of *Credit with Education* offered by FECECAM (Fédération des Caisses d'Epargne et de Crédit Agricole Mutuel du Bénin) was that they chose to participate "because of the education." After the first loan period, what the clients most appreciated about the service was "the education received." Other answers included access to loans, savings opportunities, and solidarity among group members.
- For FITSE Karonga Microfinance (August 2000) in Malawi and OIC Guinea (September 2000), education was cited frequently, but not the most frequently, as the aspect of the program the women liked most.
- For TIAVO, a small network of credit unions in Madagascar, responses of women were concentrated around the appropriateness and applicability of the education to their daily lives. They felt that they could and had already used what they had learned to prevent and deal with sickness in their children and to manage better their loans and businesses. Moreover, some of them spontaneously claimed they could advise other women in the community about what they had learned (January 2000).
- The members of another *Credit with Education* provider in Madagascar, Haingonala, also frequently cited the education and its practical relevance to their lives and those of other women in the community. They also valued the exchange of ideas with other members on how to address some of the problems they confronted (January 2000).
- Women members of *Credit with Education* offered by ACLAM (Action Contre La Misère) in Haiti were asked what they most appreciated about the education sessions. They cited not only their ability to adopt better health practices at home, but also the

reduced expenses from fewer trips to the hospital due to their better prevention and management of illness (January 2001).

These assessments of client satisfaction show real appreciation of the value of the education relative to other components of *Credit with Education*. They also are instructive regarding how to improve client satisfaction with education, as well as the other components. Occasionally, women object to the length of the learning sessions (usually in the context of more general objections to the frequency and duration of their village bank meetings), because of the time taken away from their business activities. Most often, however, clients express their desire for *more* education covering a wider range of health and business topics.

Satisfaction with education relative to credit and savings opportunities does not necessarily translate to "demand," in the sense of willingness to pay for the educational services (or how much they would be willing to pay). Demand-related research has not been done, except in a minor way in Tanzania (see Box 3), where *Credit with Education* clients said they would pay extra for education (on top of a high interest rate for loans).

Some influential voices in the microfinance community have challenged the providers of education unified with microcredit to charge an extra fee for the education service. They say that if microcredit clients truly value the extra impacts offered through extra education, they will pay the real cost of the additional service. Yet *Credit with Education* providers have not sought to recover the additional cost of extra education by charging more for the unified service than would be charged for village banking alone. In part, providers have not wanted to, and in part they have not needed to charge extra. There are important philosophical issues involved in the decision not to charge extra for education. These issues are explored in Appendix B.

Impact on the Financial Bottom Line

The impacts reported were all achieved by *Credit with Education* programs committed to financial self-sufficiency. The follow-up round of the impact evaluation research in Ghana was conducted in 1996, when the Lower Pra Rural Bank, using entirely its own loan capital, had been offering *Credit with Education* for about four years. At that time, the program had an operating self-sufficiency ratio of 81 percent, meaning that the interest paid by borrowers covered 81 percent of the Lower Pra Rural Bank's costs of delivering *Credit with Education* as one of its several services to surroundings communities. These operating costs included financial costs, including interest on debt but not loan-loss reserve. As of June 2000, the program's reported operating self-sufficiency was 130 percent. CRECER, the *Credit with Education* provider in Bolivia, was one of three microcredit institutions profiled by David Gibbons and Jennifer Meehan in "The Microcredit Summit's Challenge: Working Towards Institutional Financial Self-Sufficiency while Maintaining a Commitment to Serving the Poorest Families."[20] CRECER's efficiency and sustainability ratios were comparable to, some better than, the other two institutions, which offered very little or no education in addition to financial services. At the end of 2000, CRECER's operating self-sufficiency ratio (including interest on debt and loan-loss reserve) was 106 percent.

Vor der Bruegge, Dickey and Dunford[21] have done a cost-accounting analysis of three years of expenditure data from each of four different *Credit with Education* programs[22] to estimate the cost of education in addition to the cost of village banking. The analysis treats *Credit with Education* as a form of village banking with "extra education" beyond the education that village banking programs must provide members to help them form and manage their own village banks. Even without "extra education," village banking field agents are involved in several sessions of start-up training and then are present and providing guidance at most of the regular meetings of the village bank. Time and expenses for field agents (and their managers and trainers) to provide education in health, nutrition, family planning and business management topics at the regular meetings were allocated to "extra education." These allocated costs represent a percentage of the time and expenses of local program staff spent in training, supervision and administrative tasks and for technical assistance and training activities conducted in-country by U.S.-based technical and management advisors/trainers.

The three-year average "cost increase for extra education" varied from 5.9 percent in Bolivia to 9.6 percent in Burkina Faso, with intermediate values in Mali and Togo. For example, the annual cost per client served in Bolivia was $63.82. The cost analysis suggests that eliminating the "extra education" could save $3.51 per client per annum. Smith and Jain[23] report a Project HOPE estimate of 6 percent for extra education in its integrated microcredit-education programs in Ecuador and Honduras.

It is unlikely that eliminating the extra education would have significant impact on the costs of staff and capital equipment. The same numbers of field staff and vehicles seem to be required to maintain a village banking program even without the extra education. That is because the time saved by field staff not facilitating learning sessions at the regular meetings is insufficient to allow them, especially those serving dispersed rural communities, to serve more village banks (and thereby produce more revenue). The program manager of FOCCAS Uganda (a *Credit with Education* provider not included in this cost analysis) says, "Even without education, our field agents could not do more than the four [village banks] per day that they currently target." However, it is *likely* that eliminating the extra education could significantly reduce time and cost for internal supervision, training and paperwork and for external technical assistance and training to support extra education (for an overall saving for the program of up to 10 percent).

The extra satisfaction and impact experienced by clients and their families and communities seem to justify this additional cost of extra education. Yet these four unified service programs in the cost analysis charge borrowers no more for the unified service than other group-based microcredit programs in the same countries charge for just credit and savings services. The philosophical rationale is discussed in Appendix B. The practical reason for not charging extra is that it has not been necessary for achieving financial sustainability. All four programs in the cost analysis were rapidly approaching "operational self-sufficiency" in their *Credit with Education* operations (and FUCEC-Togo and CRECER in Bolivia are currently very near or surpassing this goal), meaning that all costs of unified operations and portfolio financing and reserve set-asides were nearly fully covered by interest revenue from the credit operations.

When we compare village banking with and without extra education, in terms of administrative and salary expense ratios, the providers of education do as well—even better in some respects. Woller[24] compared various performance indicators for nine of the best performing village banking programs reporting data to the *MicroBanking Bulletin*, including three which provide extra education (Kafo Jiginew, CRECER and PRO MUJER). The three integrated programs had the lowest administrative expense and salary expense ratios of the nine institutions. This indicates that the volume of lending in relationship to basic staffing and administrative expenses was relatively more efficient than for the other six village banking programs exclusively focused on microfinance. For the cost-per-borrower ratio, the three organizations placed first, fourth and sixth, indicating the cost structure relative to the number of borrowers was as good or better than for village banking operations without extra education. The integrated service providers placed first, fourth and seventh in terms of the staff productivity ratio, or the number of clients served per total staff.

Compared to all 22 village banking institutions reporting to the *MicroBanking Bulletin*, all three integrated service providers out-perform the norm (average) for the administrative expense and salary expense ratios, and two of the three organizations out-perform the norm for the cost per borrower and staff productivity ratio. While education might add 6 to 10 percent to the administrative cost ratio, it is offset by the productivity gains made in the portfolio, which actually lead to lower administrative expense ratios.

These ratios can offer more insight than the operational or financial self-sufficiency ratios, since the latter are determined to a great extent by pricing of loans. For instance, Compartamos (a large-scale Mexican provider of village banking services without extra education) is currently 143.7 percent financially self-sufficient, but it has an administrative expense ratio of 62.6 percent, which is very high compared to CRECER's 36.4 percent and PRO MUJER's 37.8 percent. The reason that CRECER and PRO MUJER are not as financially self-sufficient is that they do not charge as much for their services to the poor—not that they are less efficient due to the education.

IV. NEW HIGH-PRIORITY APPLICATIONS

Microcredit as Vehicle for Promotion of Family Planning and HIV/AIDS Prevention

Credit with Education seems to offer great potential for large-scale, self-financing delivery of microfinance and education together in one efficient and effective service package. Beyond health and nutrition education, such unified service delivery strategies can and already do serve a wide variety of educational agendas. However, staying focused on public health education, there is growing interest but little documented experience in harnessing the potential of self-financing, unified service delivery to address two of the greatest public health challenges of our time: family planning and HIV/AIDS prevention.

Multiple, closely spaced pregnancies and HIV infection pose widespread and serious challenges to individuals, families and society, especially in developing countries. Not only are the health and economy of the poor affected, often disastrously, these problems pose threats to the not-so-poor, who are highly vulnerable to financial setbacks due to broken health and death in the family. Too-frequent child-bearing and -caring by poorly nourished women often result in high levels of morbidity and mortality among mothers as well as infants and children. As HIV spreads relentlessly, adults in the prime of their productive and reproductive years grow ill and die due to HIV/AIDS or are dragged down by the unusual financial and time demands of illness and death in their extended families and their communities.

Microcredit institutions increasingly recognize their dependence on the health of their clients and their clients' families. Many acknowledge the challenging circumstances for clients playing the triple roles of wife, mother and businesswoman. Local public health officials confirm that much of the risk to clients and microcredit institutions alike could be greatly reduced with the use of effective family planning methods. In some countries, the HIV/AIDS epidemic is so severe that it threatens microcredit institutions through reduced loan portfolio growth, decreased client retention, increased portfolio delinquency and increased draw-down from savings deposits, as well as death of experienced staff or the burdens on them of caring for dying relatives. In such environments, many microcredit institutions are asking how they can better serve their clients. It is within the managerial and financial capability of many microcredit institutions to provide an education service that builds on the enhanced self-confidence of borrowers in order to promote use of family planning methods, especially those that prevent transmission of HIV, and other relevant, healthful values and practices.

CRECER Provides Family Planning Education With Contraceptive Distribution in Bolivia

CRECER (Crédito con Educación Rural) provides *Credit with Education* services (as described in the preceding section III and the FUCEC-Togo case in Appendix A) to 24,692 clients (as of December 31, 2000), mostly women in mostly rural areas in five departments of Bolivia. Unlike the great majority of *Credit with Education* providers, CRECER was created specifically to provide *Credit with Education* (and to become financially self-sustaining in the process). It is now an unregulated Bolivian "financial NGO" (unregulated because the Bolivian banking supervision agency effectively prohibits regulated financial institutions from delivering services other than *financial* services). In the future, CRECER is likely to diversify its services, but for now, *Credit with Education* is its sole service offering.

The general topics of CRECER's education component are similar to those in other *Credit with Education* programs worldwide. However, while most programs have long offered family planning education, CRECER was held back by the Bolivian government. Then, in the mid-1990s, new legislation launched the promotion of family planning and introduced modern contraceptives into the government's reproductive health services. CRECER used this opportunity to offer members of its village banks information on the most up-to-date options for family planning. In the normal learning sessions of village bank meetings, the CRECER field agent helps members consider how to use the information to make choices that will improve their lives (Appendix C provides a sample lesson plan for a learning session). The sessions cover the male and female reproductive systems, clear and complete information on each of the methods approved by the Ministry of Health, and the benefits and possible side effects to consider. Members are encouraged to seek additional information and services from health service providers.

Like other *Credit with Education* providers, CRECER has restricted its nonfinancial services to group-based education, in order to minimize expenses beyond the costs of the village banking service. Providing additional services that require specialized staff and supplies can drive total program cost up sharply. However, with due regard for this caution, CRECER is now experimenting with a system for community-based distribution of contraceptives, because access to contraceptives is very limited for CRECER's mostly rural clients.

One member is identified in the village bank to receive additional training about the use of certain contraceptives. Once trained, this woman is authorized as a community-based distributor (CBD) to sell approved contraceptives to appropriate customers in her community. Her stock of contraceptives is provided at cost by CRECER (which buys them at subsidized prices from local providers) and replenished by the field agent as the CBD sells her stock. Government health regulations limit the items in the CBD's stock to condoms and vaginal spermicide. However, the CBD is given additional training that prepares her to offer counseling in the use of and contraindications for a broader range of methods that couples might want to consider. She is also linked to a local family planning service provider through a referral system. This referral system expands the range of methods the CBD can "offer" to clients.

Of 329 CBDs trained by September 2000, 260 remained active as CBDs in about one-third of the communities served by CRECER. A recent assessment of this CBD experiment found that CRECER trainers do conduct in-service workshops for the CBDs, that the CBDs do talk effectively and accurately about the methods they know, and that the CBDs do refer cases to the formal health system. The participatory education by CBDs appears to be desensitizing the topic of family planning and thereby creating a breakthrough in women's willingness to talk about reproductive health issues. The assessment also found that CBDs are the leading sellers of contraceptives in the rural areas they serve. Even so, the volume of sales is very low, in part because the two types of contraceptives the CBDs can sell are in low demand (the spermicide tablets are preferred over condoms), despite the education provided. Nonetheless, the credibility of the CBDs as family planning educators seems to be enhanced by their ability to sell contraceptives and to counsel and refer people to good-quality reproductive health services.

CRECER's objective was to make the CBD system a self-financing service. The marginal costs of supporting CBDs amount to less than 0.5 percent of CRECER's total operating expenses, but the low volume of sales and a government ceiling on contraceptive prices make it unlikely the CBD service can become financially self-sustaining. Nonetheless, motivated by its members' response to the CBD service, CRECER is committed to bear the costs that cannot be covered through sales of contraceptives. Primarily external grants for this purpose, rather than the interest paid by all borrowers, is likely to be CRECER's strategy to cover costs for the service that can directly benefit only a subset of CRECER members.

FOCCAS Uganda Provides Education for Family Planning and Prevention of HIV Infection

FOCCAS Uganda (Foundation for Credit and Community Assistance) is an unregulated Ugandan microcredit institution founded for the initial purpose of providing *Credit with Education*. FOCCAS currently offers village banking together with health, nutrition, family planning and better business education to 13,048 women living (as of December 31, 2000) in rural and peri-urban areas of four districts of eastern Uganda.

Like CRECER, FOCCAS is providing family planning education to its women members and linking them to services provided by others. When the FOCCAS field agent has nearly completed the education module on family planning, field staff from Marie Stopes (a U.K.-based family planning support organization) attend the next regular group meeting. They again review the various family planning methods and answer any questions, with particular emphasis on the more technical aspects with which the FOCCAS field agents may be less conversant. They then provide access (on the spot) to any of the contraceptive methods that the women may have decided upon (including tubal ligation!). This is still a pilot effort, but it seems to go well, and Marie Stopes has committed to providing this service to any FOCCAS village bank that completes the FOCCAS family planning education module. Marie Stopes was having outreach problems in eastern Uganda, until FOCCAS provided a ready network of women's groups for them to serve. This arrangement does not ensure sustainable access to family planning services, but it does help those women who are ready to take the next step, and it reinforces the messages that FOCCAS staff have been delivering.

Given the high prevalence of HIV/AIDS in Uganda, the need for FOCCAS to address the epidemic is a high priority. Both prevention and mitigation services are necessary, but FOCCAS could not realistically offer health care and other mitigation services while aiming to depend solely on revenues from its credit operations. Rather, FOCCAS chose to focus on HIV/AIDS prevention by providing FOCCAS members with the best available information and practical wisdom for reducing their risk of HIV exposure (Appendix D provides a sample lesson plan from the FOCCAS education curriculum for HIV/AIDS prevention). The field agent also helps members think about HIV/AIDS in the context of the community, to better support those individuals dying of the disease and to encourage others to change their behavior to prevent new infection.

Having access to information does not ensure its use. The field agent must be prepared to address the reasons why women have not adopted or may not adopt beneficial new practices. It is a real challenge to identify and respond to the major obstacles to behavior change in relation to HIV/AIDS. For example, how can a woman act upon her new understanding when she is often not given a choice regarding sex? What should a woman do when she wants to have children but her husband indulges in high-risk behavior or is known to be HIV positive? The field agent facilitates a process of problem-solving, decision-making and motivation to action that often involves a kind of psychological journey with a number of steps needed before making the decision to change ideas or practices and form new habits. Teaching and maintaining good group facilitation skills among field agents is central to successful behavior-change education.

Fortunately, the training for group facilitation serves the microcredit component as well as the education component.

The proper selection of field staff and their training in facilitation skills and HIV/AIDS content is only the beginning. Also required are systems for 1) supervision of education, 2) assessment and feedback on the quality of delivery, 3) monitoring the education impact, and 4) feedback from clients on the education content and quality. Such systems are available and complementary to the systems currently used by most microfinance institutions, but effort is required up-front to adapt the systems, put them in place, and provide the necessary staff skills.

Although FOCCAS restricts its nonfinancial services to education, it recognizes that education alone is insufficient to properly address the HIV/AIDS crisis in eastern Uganda. In the near future, FOCCAS intends to facilitate member access to complementary HIV/AIDS services such as testing and counseling. This will require FOCCAS to identify appropriate local service providers, introduce members to these services, and maintain relationships with these providers.

V. CHALLENGES OF IMPLEMENTATION

Unified vs. Parallel Service Delivery?

The preceding summary of impacts and opportunities of the unified-service delivery model, exemplified by *Credit with Education*, seems to show that society is better served when microcredit and health/nutrition education are delivered together to the same very poor people, especially women. Moreover, **unified service delivery is operationally feasible. It can produce qualitatively similar, yet more diverse and potentially synergistic impacts than either microcredit or education alone. And it can do so at considerably less total cost than if both microcredit and education are delivered in parallel by different delivery systems. But how difficult is it *actually* to run a unified service compared to a parallel service?**

Smith and Jain[25] point out that evidence of complementarity of microcredit and education outcomes says little about the merits of unifying their delivery within one organization. What is good for society is not necessarily good for a service-delivery business (and vice versa). An organization trying to operate simultaneously in two very different sectors of development activity may compromise its effectiveness and efficiency in one or both sectors. The logic is that specialization in one or the other heightens effectiveness and efficiency; a generalist, multi-sectoral approach decreases effectiveness and efficiency. On the other hand, the impact evidence collected so far does not support this idea that quality of either microcredit or health education *must* be compromised for the sake of unification.

Nonetheless, intersectoral compromise may be very real for some organizations. As the examples in Boxes 2 and 3 illustrate, what can work well for one organization may not work for another. If managers and field staff are too preoccupied with the credit operations, the education will suffer from neglect (Box 2).

Even if the education component is highly valued by the service clients, they will abandon the unified service when the microcredit service fails to meet their needs or imposes "client unfriendly" conditions on borrowers (Box 3).

In both cases, it is likely that **fixation on short-term achievement of financial sustainability in the credit operations worked against success in the education service (and against the best interests of the clients).** It can, and often has, worked the other way. **A unified-service delivery system obsessed with meeting the educational and other needs of clients could easily work against the long-term sustainability of the credit operations (and against the best interests of the clients).**

It is a significant challenge to find a working balance between concern for the microcredit service (and the institution it supports) and concern for the education (and the client needs it serves). This duality is not nearly as troublesome when field staff and managers can specialize in one service or the other, such as when two specialized programs or organizations are delivering microcredit and education in parallel.

Box 2 ***Quality of the Education Matters: Supervision and Feedback***

The positive changes in mothers' health/nutrition knowledge and practice measured in Bolivia were not nearly as dramatic as those seen in Ghana. In the Ghana site, over the course of the multi-year research, the nutritional status of participants' children showed improvement relative to non-clients' children but this was not seen in Bolivia. An important difference between the Ghana and Bolivia programs was the quality and quantity of education that women received at their regular village bank meetings. Prior to and during the study period in Bolivia, program management showed weak commitment to the education component due to preoccupation with other implementation challenges primarily related to program expansion and internal credit controls. Supervision of field agents was less consistent than in Ghana and field agent turnover was higher. The majority of village banks included in the impact study had a series of field agents working with them, which resulted in inconsistent quality for delivery of health/nutrition education. These findings from the study led Bolivia program management, and other *Credit with Education* providers, to give better attention and resources to recruitment, training, supervision and support for field agents (including monetary incentives for complete, good-quality delivery of the education).

A microfinance institution considering delivery of additional services in nonfinancial service sectors should ask itself the following questions:

- What additional services are required by the institution's own development objectives?
- What additional services are required to satisfy the needs and wants of the intended clientele?
- What are the feasible options for providing additional services that meet both institutional objectives and client objectives? Links to other, nonfinancial service providers? Creation of a separate institution to provide nonfinancial services? Creation of a separate nonfinancial service unit within the institution itself? Unification of the nonfinancial services with the existing financial service delivery system?

The answers cannot be given here. They depend on the specific situation: the microfinance institution, the clientele, and the other institutions currently or potentially serving this clientele. The unification option is the most demanding, but it also may be the only option or the one most likely to be sustainable in the long term. Even then, **unification is advisable only when the institution wants to add one or more forms of *education* to microfinance services for *relatively large borrower groups that meet regularly with field agents of the institution*.**

The education should adhere to principles of effective adult learning, but the content can be varied or singular and drawn from structured curricula or facilitated exchanges of knowledge among the clients themselves. A mix of approaches (as in *Credit with Education*) can be used. But the education program, whatever it is, must be manageable by the same people, clients and staff, who are involved in the management of the financial services.

Box 3 *Quality of the Credit Matters: Client Satisfaction and Retention*

In Tanzania, an organization conducted a trial addition of better business and family planning education to its existing village banking services. Several months into the trial, virtually all of the women in village banks getting the education said, when asked, they would pay an additional fee for the education. This is particularly notable since there was widespread sentiment among clients that the interest charged by the program was already too high. But "liking" the education is not enough. This trial was ultimately abandoned when external economic shocks, exacerbated by a variety of lending program policies unfriendly to clients led to extremely high dropout rates. Of the 506 clients surveyed just before the trial began, only 76 women (15 percent) were still with the same village bank 16 months later. Twenty-one (42 percent) of the 51 village banks included in the trial were no longer operating. While field staff and clients alike agreed that the education was beneficial, it was not enough to keep women in a program whose credit terms and policies (interest rate, mandatory group size, repayment terms, etc.) imposed costs or risks that outweighed clients' perceived benefits of participation.

As an organization considers the unified option, it should understand why this option is more demanding and be realistic in assessing its commitment to unification. Further explanation of the demands of the unified option is offered in Appendix E.

Analysis of Specific Cases: FUCEC-Togo, BRAC and PRO MUJER

The three cases detailed in Appendix A illustrate the diversity of real-world responses to the implementation challenges of the unified delivery model. All three organizations share a commitment to offer both group-based lending and various types of education and other services to very poor women. And all three are attempting to do this for the long term, addressing the difficult issues of institutional and financial sustainability in the provision of financial and social services.

FUCEC-Togo is offering *Credit with Education* as one among several financial products offered by its member credit unions. The unified microfinance-education product reaches rural women who would not have been reached otherwise by the credit unions. There are specialized *Credit with Education* field agents, but each one is responsible for all the services—microfinance, health and nutrition education, and better business education—provided to the *Credit with*

Education women's groups assigned to that field agent. FUCEC-Togo reports a high level of satisfaction with the performance of the *Credit with Education* product, both because this line of business approaches profitability for the federation and because the impact on rural women appears to satisfy both the women's and the credit unions' social objectives. Commitment to the fully unified delivery model remains strong.

BRAC provides multiple services to a huge clientele throughout Bangladesh. Microfinance, education, health and social services are offered to the same clients (97% women) through functionally independent, sector-specific service programs, each with its own administration and staff and revenue stream. In the past, the same BRAC staff were responsible for all services to their assigned groups. However, "the rigors of running an efficient credit program meant that other sectors and tasks tended to be neglected. Moreover, BRAC realized that a [field agent] who is good at managing credit may not necessarily be suitable for carrying out social awareness-raising programs and vice versa."

BRAC acknowledges that coordination between different programs is sometimes difficult and that the total cost for separate management and staff for each program is higher than if there were a single set of managers and staff for all services. The microfinance program is financially self-sufficient. There is some current and potential cross-subsidy of the education and training programs from BRAC's microfinance and sub-sector development (poultry, silk culture, social forestry and others) programs. But education and training programs are funded predominantly by external grants, and partial dependence on external funding is expected for the foreseeable future. Evidence of the importance of a holistic approach to development and of specific positive impacts on clients of the combined services maintains BRAC's commitment to providing a broad package of services.

PRO MUJER serves poor women in peri-urban areas of Bolivia with a package of village banking loans and savings and also business development and health services. Both of the latter two provide education at the village bank meetings (held at a local PRO MUJER office called a Focus Center) and through individualized counseling (including clinical services for reproductive health).

"Services are delivered by operating teams, each led by a Credit Officer/Educator, who supervises all staff assistants providing services at a Focus Center. Credit Assistants advise the client groups on the evaluation, granting and tracking of loans. Business Assistants provide training and technical assistance for business development. Health Assistants provide preventive health training and primary health-care services. In addition, there is a business technician and a physician who give technical help to the personnel of these services and coordinate with the Credit Officer/Educators, whose supervision is operational, not technical." Thus, management of the three services is unified from the Focus Center manager on up to the Executive Director. In contrast, the staffing and technical support for delivery of services at the Focus Centers is provided by specialized staff working in parallel.

"Nonfinancial services represent 30 percent of costs during fiscal year 2000. Only 20 percent of costs for nonfinancial services were covered by income directly generated by these services. In the future it is planned that financial income and income from nonfinancial services will cover the costs of nonfinancial services. But, until this is achieved, PRO MUJER has sustainability plans based on contributions from the community, its own funds and new financing. The sustainability of nonfinancial services is an institutional priority because it fully favors clients and because it qualitatively strengthens and improves the performance of the credit service."

In each case, the organization is committed to full financial self-sufficiency of the microfinance operations, but satisfying the broader needs of the clients is as important, it seems, as financial self-sufficiency of the overall institution. Where they differ is in their deployment of managers and field staff. Only FUCEC-Togo is using the same managers and field agents to deliver both microfinance and nonfinancial services, and only FUCEC-Togo is close to full recovery (from the clients) of all costs for the full range of services. But BRAC and PRO MUJER, being willing to go after external funding, offer a broader range of services.

Author's Conclusion

In writing this paper, I have tried to be objective, though I currently lead an organization heavily committed to integration, and more particularly, unification. It has been a humbling learning experience. There is a wealth of experience in the development community that is barely revealed here (or anywhere else). And much of it seems contradictory. The more I investigate the issues of integrating microcredit with other services, the more I understand the difficulty of the task and the more I realize how little I know how to predict what will work and why.

Design of the delivery system certainly matters, as do competencies of system managers and staff, their policies, procedures, and information for management decisions, and the routines of recruitment, training and supervision of the delivery agents who make direct contact with the clients/beneficiaries of the system. All of the things we talk about in the microcredit community matter—because microcredit is the controlling (financing) partner in most integrated models. But it seems to me there is a very important factor that we talk about very little—human will.

I am continually impressed by the will of the people for whom we design and implement microcredit and other development services. It is a tribute to the power of their will to survive and succeed that the poor turn the paltry resources and opportunities we offer into something useful and meaningful in their lives. When successful, what we *will* to offer resonates with the *will* of the poor. There seems to be a mysterious concordance of wills. As the old expression in English says, "Where there's a will, there's a way." But it has to be on both sides of the exchange. Of course, will on both sides is insufficient by itself, but it is a *necessary* condition for success. Clearly, microcredit has created, or stumbled into, this mysterious concordance of wills many times, perhaps more often recently than we've seen in other sectors of development. But it is a common mistake to assume that even a microcredit service adhering to the best of practices, yet disembodied from the will of the people who provide them and the will of the people who use them, is guaranteed to be successful.

So it seems to be with integration of microcredit with other development services. Where there's a will (on both sides), there's a way. Conversely, if there is not the will on the part of microcredit managers to achieve financial and institutional sustainability, they will not. If there is not the will to force their way through the obstacles to reaching the poor, they will not. If there is not the will to meet the needs and even consumer demand of the poor for nonfinancial services, they will not. If not the will to link microcredit with others who have the will to provide nonfinancial services, they will not. If not the will to find the grant funding to support separate but parallel systems of delivering both microcredit and nonfinancial services to the poor, they will not. And if there is not the will to unify different-sector services in one delivery system, unification will fail. There is nothing wrong with lacking a certain will, but we must understand how this will or lack of will actually shapes our perception of the feasibility of a particular proposal and, should we decide to give it a try, the chances for its success.

There are many things that can support or sap the will of programmers considering the unified model of service delivery. Freedom from Hunger has perceived that parallel delivery of microcredit and health/nutrition education is unsustainable (due to grant dependence) and that sustainability of individual programs is crucial for creating enough of them to eventually reach the many tens of millions of people who need both types of service. Hence our commitment to the less expensive but more difficult unified model. When our implementing collaborators in *Credit with Education* have shared this commitment to unify microcredit with education for better food and nutrition security, such as CRECER, FOCCAS, FUCEC-Togo and many others, they have maintained the unified model even without our assistance. Without a lasting commitment to public health or other social impacts, some have dropped the education component altogether when the external funding was gone and the inevitable problems arose.

However, it is clear that the pure unified model is not the only way to pursue important social objectives. BRAC tried a unified delivery model in the past and found it too difficult to maintain, especially when it could support a more straightforward parallel model with grants available to such a visibly successful organization in a country that attracts massive international aid flows. Perhaps PRO MUJER has found a good, medium-cost compromise—unified at the level of supervision, parallel at the level of field staff in contact with clients. The will of PRO MUJER to find grant support for this hybrid model is bolstered by the will to self-finance, eventually, with their own program-generated revenues.

Here is my advice to the reader who asks, "What to do?" Do what you *will*.

Endnotes (with literature cited)

[1] For more information go to http://www.paris21.org/betterworld/setting

[2] MkNelly, Barbara and Christopher Dunford. 1996. *Are Credit and Savings Services Effective Against Hunger and Malnutrition? A Literature Review and Analysis*. Freedom from Hunger Research Paper No. 1, Freedom from Hunger, Davis, CA (E-mail: info@freefromhunger.org).

[3] *Linking Microfinance and Safety Net Programs in Include the Poorest: the Case of IGVGD in Bangladesh.* CGAP Focus Note No. 21, May 2001.

[4] *Credit with Education* is a unified microcredit-education strategy first developed by Freedom from Hunger in 1989–90 for the purpose of improving household food security and child nutrition. It comprises elements of the Grameen Bank, FINCA village banking, USAID-sponsored child survival programming and principles of nonformal adult education. A more complete description of the model was published in the adult education journal *Convergence* 28 (3): 26-35, 1995 (free copies of the article are available from info@freefromhunger.org). As of December 31, 2000, NGOs and community-based financial institutions in 14 countries were implementing *Credit with Education*, with past or current assistance from Freedom from Hunger. These *Credit with Education* implementers are as follows:

Bénin: Fédération des Caisses d'Epargne et de Crédit Agricole Mutuel (FECECAM), national credit union federation
Bolivia: Crédito con Educación Rural (CRECER), an unregulated financial NGO
Burkina Faso: Réseau des Caisses Populaires du Burkina (RCPB), a national federation of credit unions
Ghana: seven of the Rural Banks of Ghana
Guatemala: Fundación para el Desarrollo Integral de Programas Socioeconómicas (FUNDAP), an NGO
Guinea: OIC Guinea, an NGO affiliate of Opportunities Industrialization Centers International (OICI)
Haiti: Action Contre La Misère (ACLAM), an NGO
Haiti: COD/EMI, an NGO affiliated with the Methodist Church in Haiti
Honduras: Familia y Medio Ambiente (FAMA), an NGO affiliate of Katalysis Partnerships
Indonesia: MMS, a unregulated financial NGO affiliated with World Vision Indonesia
Madagascar: Haingonala, an NGO
Madagascar: OTIV, a regional federation of credit unions
Madagascar: TIAVO, a regional federation of credit unions
Madagascar: Tamifi, an unregulated financial NGO
Malawi: FITSE Karonga Microfinance, an unregulated financial NGO and affiliate of World Vision Canada
Mali: Kafo Jiginew, a regional federation of credit unions
Mali: Nyèsigiso, a regional federation of credit unions

Philippines: eleven savings and credit cooperatives on Mindanao, associated with World Council of Credit Unions
Philippines: Committee for Agriculture and Rural Development (CARD) and CARD Bank, a Rural Bank
Togo: Fédération des Unions de Coopératives d'Epargne et de Crédit (FUCEC), a national credit union federation
Uganda: Foundation for Credit and Community Assistance (FOCCAS), an unregulated financial NGO

In aggregate, these implementing organizations were reaching 166,642 women, of whom 142,929 were taking current loans averaging $67 each. The total amount of outstanding loans was US$9.59 million, and the total amount of savings was US$1.97 million. The weighted average for operating self-sufficiency, of the implementing organizations reporting complete revenue and expenditure data for the previous six months, was 92%. Overall portfolio at risk was 4.21%. Other versions of *Credit with Education* have been developed by other organizations in the past decade without Freedom from Hunger assistance, notably by World Relief Corporation and Project HOPE.

[5] Prof. Muhammad Yunus, founder of the Grameen Bank, has related to the author that the "Sixteen Decisions" were formulated and promulgated in response to early demand from the women clients of the Bank. In fact, client representatives soon requested more than 16 "decisions," but Prof. Yunus saw that the social change agenda of the Bank could not be allowed to expand further without eventually interfering with the primary work of staff to provide microcredit loans and recover them.

[6] "Directory 2000: Integrated Service Delivery Programs of Member Organizations" compiled by Jan Kingsbury on behalf of the *Credit with Education* Learning Exchange (available from Freedom from Hunger, info@freefromhunger.org).

[7] *Village Banking: The State of the Practice*, Candace Nelson, Barbara MkNelly, Kathleen Stack and Lawrence Yanovitch (with assistance from the Poverty Lending Working Group of SEEP and participants at the International Conference of Village Bank Practitioners). Small Enterprise Education and Promotion (SEEP) Network and the United Nations Development Fund for Women (1996). 80 pp. (For sale by Pact Publishing, 1200 8th St., N.W., Ste. 350, Washington D.C. 20036 Tel. (202) 466-5666; E-mail: books@pactpub.org. Price $12.95).

[8] See endnote 3 above.

[9] Kevane, Michael. 1996. *Qualitative Impact Study of* Credit with Education *in Burkina Faso*." Freedom from Hunger, Research Paper No. 3, Freedom from Hunger, Davis, CA (E-mail: info@freefromhunger.org).

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Smith, Stephen C. and Sanjay Jain. 1999. "Village Banking and Maternal and Child Health: Theory and Evidence from Ecuador and Honduras." Working Paper, George Washington University Department of Economics, Washington, DC 20052. (also to be found on the Microfinance Gateway at www.ids.ac.uk/cgap/ static/1821)

[10] In both studies (MkNelly and Dunford, 1998, 1999—cited above in endnote 8), two major survey and anthropometric (heights and weights) data collection rounds were carried out—with different mother/child pairs participating in the two time periods. A quasi-experimental design was applied at the community level to minimize possible bias. Following baseline data collection, 19 study communities were matched and then randomly assigned to either a "program" or "control" group, with the latter not to receive *Credit with Education* until after completion of the evaluation research. Baseline respondents were later classified as future "participants" or "nonparticipants" depending on whether they joined the program, when and if it was offered in their community. Three sample groups of women with children under three years of age were included in the follow-up research: (1) *Credit with Education* program participants of at least one year; (2) nonparticipants in program communities; and (3) residents in control communities selected not to receive the program for the period of the study. Women for the two nonparticipant groups were randomly selected from comprehensive lists of all women with children less than three years of age. Program impact is evaluated by comparing the magnitude and direction of change in the responses and measurements between the two data collection rounds—program participants versus nonparticipants and residents in control communities.

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[14] Schuler, Sidney R. and Syed M. Hashemi. 1994. "Credit Programs, Women's Empowerment, and Contraceptive Use in Bangladesh." *Studies in Family Planning*, 25 (2): 65-79.

[15] To corroborate Freedom from Hunger's longitudinal research study in Ghana (MkNelly and Dunford, 1998), an independent study (unpublished research by Dr. Margaret Armar-Klemesu of the Noguchi Memorial Institute for Medical Research, University of Ghana, Legon) investigated dietary intake of children 9–20 months old who were in the Ghana follow-up round of data collection. Dietary intake was assessed by the mother's 24-hr recall of all breastfeeding episodes

and all meals and snacks consumed by the child on two non-consecutive days. Mothers identified measures used to offer food to the children, how much was offered, and proportions consumed in reference to local measures and fist size. Samples of all foods reported were taken to the lab for calorie and nutrient content analysis using appropriate food composition tables.

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[23] See endnote 12

[24] Woller, Gary. 2000. "Reassessing the Financial Viability of Village Banking: Past Performance and Future Prospects." *MicroBanking Bulletin,* 5 (September 2000): 3-8.

[25] See endnote 12. Also, Stephen C. Smith. 2001. "Microcredit and Health Programs: To Integrate or Not to Integrate?" pp. 41-50 in R. Rodriguez-Garcia, J. A. Macinko, and W. F. Waters, eds. *Microenterprise Development for Better Health Outcomes* (in series *Contributions in Economics and Economic History*). Greenwood Press, Westport, CT.