TOWARD AN INTEGRATED APPROACH TO MICROFINANCE: SUSTAINABILITY IN BOLIVIA AND PERU

Eva Orbuch

Microfinance is a concept that has greatly expanded in meaning and practice since its inception. As a result of its diversification, there are a variety of ways to differentiate between microfinance institutions (MFIs). One possible method, to which this paper subscribes, is to distinguish MFIs based on their particular approach to service delivery in terms of either products and services they choose to offer to clients; why they make this choice; or how they administer those services. One group of MFIs chooses to provide only financial products to their clients, primarily in the form of small loans, in order to maximize operational efficiency. This strategy contrasts with MFIs that choose to consider additional means of economic and social development within their purview. These MFIs offer additional services beyond standard credit products, such as life insurance products, educational programs, and direct healthcare. For the purposes of this study I term this the "integrated" approach to microfinance.

This study takes as its basis the premise that achieving a balance between the financial sustainability and the social impact of an organization is one of the most significant goals of microfinance.[1] Based on this assumption, the primary research question of this study is: what approach to service delivery is most effective in helping an MFI achieve a balance between financial well-being and social impact? Financial well-being is a broad category; thus this paper focuses on financial sustainability, defined as an organization's ability to reach its target population while covering administrative and other costs.[*2] In seeking to answer this question, I

Eva Orbuch graduated from Stanford University in 2011 with a BA in urban studies and a minor in education. She is currently teaching eighth grade English and history in a San Jose public middle school through Teach for America.

* In context of microfinance, Financial Sustainability is essentially the same as Operational Self-Sufficiency (OSS). OSS=total operating revenues/total administrative and financial expenses. If the resulting figure is greater than one hundred, the organization under evaluation is considered to be operationally self-sufficient. Operationally sustainable microfinance institutions are able to cover administrative costs with client revenues.

conducted research for two months in Peru and Bolivia, surveyed a wide variety of integrated and non-integrated MFIs, and collected qualitative data from field observations and interviews with microfinance stakeholders. I sought their perspective on their organization's specific approach to service delivery as well as their views on the tradeoff between solvency and social mission.

Research focused on the various approaches to service delivery in the microfinance sectors of Peru and Bolivia, both of which are well-developed and rapidly growing, and whose MFIs serve as models worldwide. As of 2009, MixMarket reported that Peru had sixty-five total MFIs, a gross loan portfolio of 5.5 billion dollars, and 3.1 million active borrowers. In 2005, the microfinance sector in Peru represented only 5 percent of the total financial sector, but the country's MFIs had as much as 40 percent of the total number of borrowers in the financial system.[3] As of 2009, MixMarket reported that Bolivia had twenty-six total MFIs, a gross loan portfolio of 1.9 billion dollars, and 872,655 active borrowers. These two countries were selected because they are neighbors, microfinance exemplars, and contain a wide mix of purely financial MFIs and service integrated MFIs.

Current literature has called into question the previously touted effectiveness of microfinance and many in the microfinance community acknowledge the difficulty of fighting poverty through micro-loans alone.[4] A new approach is now necessary in order to "put development back into microfinance."* Based on contemporaneous literature and on the perspectives of MFI leaders and employees, I conclude that the integrated service approach provides the best framework through which to balance the demands between financial sustainability and social impact. Opinion on the manner, however, is still mixed: while many practitioners and experts hold that no inherent conflict exists between these two aims, others believe a tradeoff inevitable.

It must be acknowledged that there is no one correct way to practice microfinance and that bundling a variety of services into MFIs is not always the most effective approach. The appropriate

* The subtitle of Fisher and Sriram's 2002 book is "Putting development back into microfinance."

context is required to make integration effective, and it is certainly possible to practice integrated microfinance in a way that has little added effect on clients and MFI operations. However, contrary to common criticisms of the service integration approach, my data demonstrate that providing additional non-financial services to clients does not necessarily lead to insolvency. In fact, my primary data reveal cases in which service integration not only failed to diminish sustainability and organizational well-being, but actually lead to improvements in these areas.

BACKGROUND

Many entities that are today microfinance NGOs began with a stricter focus in development and gradually moved into the microfinance sector for various reasons. Pro Mujer—an MFI active in five countries in Latin America, among them Peru and Bolivia—began providing financial services to its clients not because the organization was losing clients, but rather because those it served wanted additional financial services in order to further their progress. Carmen Velasco explained that when she and her co-founder began the organization, they provided only basic business training to Bolivian women. The women enjoyed the training and were eager to make business plans, but the directors realized that without funding, their clients could not 'take the next step' regarding their business initiatives. Upon the receipt of a U.S. Agency for International Development (USAID) donation, Pro Mujer's directors were able to launch the credit component of the organization's operations.

As a percentage of the global network of MFIs, which as of 2007 served approximately 155 million clients,* there are still only a small number of MFIs that have pioneered the integrated approach and established successful models. While experts and practitioners do not yet fully understand the financial impact of service integration, they generally accepted that going beyond basic credit and savings products adds cost. Because of the willingness to in-

* This number comes from the Microcredit Summit Campaign.

cur this extra cost, the majority of MFIs attempting the integrated approach are not-for-profit. Non-profit MFIs often have a more explicit social mandate than their for-profit counterparts, and the integration of services supports the achievement of the organizations' mission (and is sometimes even central to it). Another common characteristic is the use of some form of the village-banking model in which clients meet in groups on a regular schedule, as group settings allow for the more efficient delivery of social services like educational sessions.[5]

The two major approaches to service integration are the parallel approach and the unified approach.[6] In the parallel system, MFIs forge partnerships with external service providers that deliver social services to their clients. In the unified approach staff members within the MFI provide these services. One way in which unified MFIs sustain the cost of their non-financial services is the cross-subsidization of non revenue-earning activities with margins earned from financial services. For example, an MFI can use the revenue it earns from interest charged on loans to pay for an education component. This approach can help organizations offset the costs of non-financial services.

LITERATURE REVIEW

A growing number of studies have attempted to quantify the effects of microfinance on clients' lives. In 2005, the MIT Poverty Action Lab undertook a randomized evaluation of the impacts of introducing microcredit in a new market. The researchers opened MFI branches in half of the slums in one Indian region, while the other half did not receive the intervention. They used only the standard group loan (first used by the Grameen Bank in Bangladesh), in which a group of ten women received a loan and were all jointly responsible for its repayment. The results revealed that the introduction of microcredit has some varied and significant effects on business outcomes and the composition of household expenditure. While the study showed that microcredit could enable households to borrow and invest, it revealed no short-term (fifteen to eighteen months) impact on social measures such as health, education, or women's decision-making.[7]

A small body of literature has also looked into whether microfinance can be an effective tool to reach the Millennium Development Goals (MDGs) and, if so, in what way. In a 2003 paper, researchers from the Consultative Group to Assist the Poor (CGAP) argued that microfinance plays an important role in meeting the MDGs in the following areas: eradicating poverty, promoting children's education, improving health outcomes for women and children, and empowering women.[8] The authors give the rationale that many other interventions such as employment, education, and healthcare depend on people's access to financial services, and that improvements in these other areas can only be maintained when households have increased control over financial resources.

While research focusing specifically on the effects of integrated microfinance is relatively rare, the work done has largely confirmed the positive nature of its impact. [9] Institutions like Freedom from Hunger (FFH) and Innovations for Poverty Action (IPA) have performed several useful studies. Led by Dean Karlan and Martin Valdivia, these two organizations conducted an impact study in 2006, in which a randomized control design was used to examine the MFI Finca-Peru. Clients receiving only credit services were compared with those who received financial services and FFH's business education program on topics like business strategy and marketing. The results indicated that recipients of both credit and education services displayed greater business acumen and higher revenues than those who received only credit services. From the perspective of the MFI's financial health, the results showed higher repayment and retention rates among education clients; this is supposedly because the clients had improved their businesses and were able to repay more reliably, as well as because the clients valued the training they received and thus felt loyal to the institution. The higher retention rate translated into increased revenue for the MFI. It was calculated, however, that adding this education to the program had a marginal cost of 6 to 9 percent, Critics of the integrated model or those who look to minimize costs might argue that this marginal cost is imprudent.[10] But proponents of integration would argue that this increased cost is not significant enough to justify turning down this approach, especially because the increased revenue due to heightened rates of repayment and client retention exceeded the 6 to 9 percent cost.[11]

One of the primary factors deterring MFIs from taking this approach is the trend toward commercialization and profit-seeking activities within the microfinance community. In a 2010 paper, "Weaving straw into gold," Rodrigo Canales writes,

> As NGOs, MFIs initially could rely only on donors –and retained earnings if available—to fund their growth (Marulanda and Otero 2005). This generated a dual pressure—from their need to fund their own growth and their dependence on donors—to adhere to strict norms of efficiency and profitability with a narrower focus on microcredit, the most profitable of their services (Dugan and Goodwin-Groen 2005).[12]

As microloans are the most profitable product that MFIs offer, some organizations are being pressured into taking a narrow approach and leaving out non-credit products. There are also additional pressures for MFIs to "install complex accounting and managerial systems." This explains why integrated microfinance, which has a more complex accounting system due to difficult-to-quantify costs, would be difficult to justify in the new, conservatively minded financial environment.[13] The increase in international ratings organizations that specifically track MFIs, such as MicroRate, Planet Rating, and Micro Finanza Rating, in turn increases the pressure on MFIs to be profitable, attract investors, and "conform to international standards and best practices." These pressures squeeze current practitioners of the integrated approach and discourage new MFIs from adopting service integration because of the difficulty of standardizing non-credit services such as education and healthcare initiatives. Yet, as I will discuss later, my interviews also indicate that a strong social mandate and well-defined organizational policies could allow MFIs to continue to pursue their stated goals rather than face "mission drift," i.e., the gradual abandonment of the poverty-reduction aims of the microfinance sector.

Julia Battilana and Silvia Dorado recently examined the history of this growing pressure in a recent paper, "Building sustainable hybrid organizations."[14] They write:

> These new organizations combined two previously separate logics: a *development* logic that guided their mission to help the poor, and a *banking* logic that required profits sufficient to support ongoing operations and fulfill fiduciary obligations… The pioneering commercial microfinance organizations thus faced the double challenge of having to survive as new ventures while striking a delicate balance between the banking and development logics they combined, and avoiding mission drift.

I argue that this sought-after equilibrium between the banking and development aspects of MFIs can be translated into a more general balance between financial sustainability and social impact in the microfinance sector. While agreement among those interviewed was not unanimous, I believe that this balance is possible and the tradeoff is not inevitable.

PROJECT METHODOLOGY

The original aim of my project was to obtain a general picture of the microfinance landscapes in the neighboring countries of Peru and Bolivia and to discover how their approaches to service delivery compare. I intended to collect management perspectives on the qualitative relationship between financial sustainability and social impact, based on whether an MFI was offering purely financial services or a mix of financial and non-financial services. Finally, I hoped to synthesize all of the data collected and determine whether one particular microfinance service model, organizational experience, or theoretical approach to microfinance stood out as particularly noteworthy.

To conduct the field research for this project, I traveled in Peru and Bolivia for two-and-a-half months in the summer of 2009. The project's scope required a sample size that was limited in relation to the entire market. To ensure a general amount of representation of the two sectors and a variety of service delivery approaches, I chose geographic locations and specific MFIs using purposive sampling.[*] I selected a mix of for-profit MFIs that are regulated by banking authorities,[†] as well as unregulated, non-profit MFIs with non-governmental organization (NGO) status.[‡]

In order to analyze the various MFIs in my study, I used snowball and convenience sampling[§]. In total, I visited thirteen MFIs[℄] and conducted interviews with thirty-one different MFI managers and employees, three professionals working in institutions that provide external support and funding to MFIs, three academics studying microfinance, one microfinance rating agency employee, and three MFI clients. I interviewed MFI employees who held a variety of positions, from executive director to director of product development for thirty to ninety minutes. I chose to include a wide variety of microfinance topics rather than focusing the conversation solely on my primary research questions and potentially biasing the interviewee in a particular direction. I also visited several MFI client centers, conducted participant observation of loan repayment meetings and group education modules, and accompanied loan officers on their daily routines of visiting the homes and/or

* Purposive sampling is a non-probability sampling technique in which subjects are selected for a study because of some characteristic they possess.

† The for-profit category includes non-bank financial institutions (NBFI), commercial banks that specialize in microfinance, and microfinance departments of full-service banks. (MicroRate)

‡ In addition to NGOs, the non-profit category also includes credit unions and other financial cooperatives, and state-owned development and postal savings banks. It should be noted that this project gives NGOs a disproportionate amount of attention in relation to their actual role in the entire sector. This decision was a result of my prior knowledge that NGOs were the primary entities conducting integrated microfinance (as integration was an important innovation to consider as an approach to service delivery).

§ Snowball sampling is a non-probability sampling technique in which existing subjects of a study recruit future subjects from among their acquaintances. It is akin to networking, and it was an appropriate form of sampling in my study because members of the Latin American microfinance community are very familiar with one another. Convenience sampling means that research subjects are in part selected at the convenience of the researcher, which was necessary for my study because I did not have access to every leader in the microfinance field.

℄ Lima, Peru MFIs included in my study: the NGO Finca-Peru, the NGO ADRA Peru, the NGO Prisma, and the for-profit EDPYME Credivision. La Paz, Bolivia MFIs included in my study: the bank BancoSol, the bank Fie, the NGO Pro Mujer Bolivia, the umbrella NGO Pro Mujer International, and the unregulated Non-Bank Financial Institution Sartawi. Cochabamba, Bolivia MFIs included in my study: Pro Mujer Bolivia, Sartawi, and the NGO AgroCapital. Puno, Peru MFIs included in my study: Pro Mujer Peru, the regulated Non-Bank Financial Institution CRAC Los Andes, and the NGO Prisma. Cusco, Peru MFIs included in my study: the NGO Associacion Arariwa.

work places of clients. In addition to spending between one and five days at each single organization while I conducted interviews and field visits, I gathered information about microfinance issues and the specific MFIs in my study from MFI literature and external sources. These supplementary sources helped me integrate quantitative data into my analysis and confirm MFI claims regarding their financial and social development-related performance.

RESEARCH FINDINGS: KEY TRENDS IN PERUVIAN AND BOLIVIAN MICROFINANCE

The field research revealed a wide range of organizational regulatory frameworks, missions, target populations, types of services offered, and methodologies. Credit and savings deposits were still the primary products associated with microfinance. To administer such services, NGOs tended to use a system of group banking, although some of them had also expanded into individual loan offerings that clients could access once they had completed several group loan cycles (e.g., Pro Mujer Bolivia and Pro Mujer Peru). In terms of practices around integrating financial and non-financial services, I found that MFIs that are also NGOs tended to lean more toward some model of service integration. The majority of the NGOs in my study offered their clients some form of training or education, while only a small number of regulated entities offered education. Some MFIs I encountered focused primarily on business training to help clients improve in areas like business planning, marketing, and revenues; others taught clients specific trades; a third subset stressed broader life topics such as family life, hygiene, nutrition, and maternal and child health.

To deliver the training, the MFI loan officers taught short, structured modules to clients at the beginning of loan repayment meetings. While directors and managers of an MFI claimed that training modules were delivered to loan groups at every meeting, I observed that such sessions occurred unpredictably. MFIs often lack the resources to follow up with every loan officer to ensure that the education was being offered. Moreover, some NGO clients expressed dissatisfaction with long group meetings, inducing the loan officer to shorten the meeting by eliminating the training. However, my experience indicates that group meetings were often delayed not by long educational modules but by participants who were late due to making payments. In speaking informally with clients, I learned that many enjoyed the group meetings because they were a rare opportunity to participate in an activity for their own personal enrichment. These outings fulfill a social function as well: many knew the other women in their solidarity groups, which worked to fashion miniature social networks.

The poor healthcare statistics in Latin America* would suggest that a number of MFIs might offer a healthcare component. However, I found that most MFIs did not emphasize the need to combine credit and healthcare, and only one organization in my study, Pro Mujer, offered direct healthcare to clients. The financial and educational components are essentially the same in Pro Mujer Peru (PMP) and Pro Mujer Bolivia (PMB), but the way in which the two organizations deliver health services does vary. PMB uses the unified approach to integration, running its own medical clinics from which it offers clients primary healthcare as well as maternal and childcare. These clinics are located in the same centers where clients repay their individual or group loans and receive training sessions. Clients and their immediate families are able to use the health clinic whenever they need, and, to cover the cost, Pro Mujer charges a mandatory payment of sixty cents per month (which is added to the loan quota). PMP, on the other hand, practices the parallel approach to service integration, which focuses on establishing partner linkages for all health services rather than offering in-house services. These differences are partially explained by the fact that Peru's public sector and health institutions are generally stronger than those in Bolivia, so PMP can trust outside providers to care for their clients whereas PMB must generally provide the services themselves.

* The World Health Organization calculates life expectancy at birth in Peru at sixty-one years, and in Bolivia at fifty-five years. See: http://www.who.int/countries/per/en/.

DISCUSSION

The Case for Service Integration

My findings demonstrate a broad range of practices among Peruvian and Bolivian MFIs. While this paper does not endorse specific MFI methods over others, it concludes that the integrated approach—using either education or health services in addition to a range of financial services—makes it more likely that an MFI will achieve the sought-after balance between solvency and social services. Velasco, co-founder and director of PMB, emphasized how important it is for MFIs to focus on financial stability: "We have to see ourselves as efficient, as responsible, and as using the resources we have in the best way possible to have the largest margin possible to reinvest in our clients."[15] Thus, in order to prove their feasibility, integrated MFIs need to have theoretical standards of efficiency that minimally match those of commercial entities.

Some practitioners of microfinance, however, have entered the sector motivated by profits rather than social development aims. According to a Finrural interviewee, "commoditized" microfinance is when you have a commercial emphasis and you focus on selling your product. This approach, however, can lead to a narrow focus on profit maximization and even promote system abuses because of microfinance's potential to be both high profit and low-risk.[16] If microfinance is to succeed in its goal of lifting people out of poverty, it must be an integrated, collaborative approach, involving the public and private sectors.* If its focus is entirely on the business end, there exists a higher risk of clients failing to receive substantive assistance. Practitioners on both ends of the microfinance spectrum must take into account the potential long-term retention benefits of providing comprehensive services for their clients.

My interviews revealed that the majority of Peruvian and Bolivian microfinance practitioners believe that it is possible to achieve the balance between an organization's financial well-being

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* The example of Pro Mujer's healthcare delivery through establishing alliances shows the importance of working with the private and public sectors.

and its social impact, and there is only a small minority of people in my study who believe that there is an inherent tradeoff between the two. Naldi Delgado, the director of PMP, says, "I do not believe there is a conflict. If an entity is efficient, it is going to have self-sustainability. The more efficient and financially sustainable it is, it is going to continue carrying out its activities so it will have an impact. I believe this is important for an entity to first be sustainable because if not, you don't guarantee your permanence."[17] Nadia Alcazar, an employee of the Bolivian MFI funding organization Fundapro, echoed this view:

> I think that every entity has a cycle between sustainability and a great social impact. Initially you have to get sustainable, and you can't search for both things at the same time—not when you are starting or when you're at the stage of growth. If there ever comes a time where you are sustainable, you have an obligation to think about how to contribute to the people. So I think it is a process because you can't demand the entity to take responsibility initially, because it won't have anything to give. But over time, social impact has to become a part of an entity's work.[18]

These statements suggest the feasibility of achieving the desired balance.

Organizational Benefits to Service Integration

1) Financial Sustainability and Cost-Effectiveness

Secondary data confirms the cost-effectiveness of the service integration approach. One metric is an organization's financial sustainability. Data from the Consortium of Private Organizations for the Promotion of Small and Micro-Enterprise (COPEME), a microfinance umbrella organization, shows that every Peruvian integrated organization studied had reached financial and operational sustainability.* In addition, nearly all of the Bolivian MFIs studied are financially sustainable, with a small minority of exceptions due

* Where financial sustainability is defined as total revenues greater than total expenses and operational sustainability institutions as the ability to cover administrative costs with client revenues.

to the recent financial crisis.[19] Another indicator of financial viability are the ratings issued by MicroRate, a microfinance ratings agency that rates MFIs based on financial performance. MicroRate reports on the institutions in the study reveal that NGOs doing service integration have received financial performance ratings as high or higher than their regulated, non-integrated counterparts. A December 2009 report from COPEME compiling financial analysis of a multitude of Peruvian MFIs shows that out of the fifteen Peruvian MFIs that are unregulated MFIs, thirteen were financially sustainable (defined as a positive net income after operating and finance expenses are considered). Thus, 85 percent of the unregulated MFIs were financially sustainable, and because unregulated institutions tend to provide integrated services, this strongly suggests that integration can be financially savvy.[20]

One cause of this fiscal strength is that the field agent must now provide both financial and educational services. This is cost-effective because the MFI does not have to train additional staff and can leverage already existing space and resources. While it is reasonable to expect a qualified staff member to be able to manage both the financial and educational components of the group, organizations should be aware of individual employee limitations. To provide effective education, the loan officer should be well trained in the specific modules as well as in broader educational techniques. FFH claims that the training for the facilitation skills of credit and non-credit learning sessions can be done at minimal extra cost.[21] Even if there were increased marginal costs from the training, practitioners claim that the cost must be weighed against the benefits gained from having staff capable of delivering education and financial transactions in the same session.

As a pioneer of the integrated education and health model, Pro Mujer has had to defend itself from those who question the decision not to focus solely on financial efficiency. To answer these doubts, Pro Mujer conducted a cost allocation study of the integration models in their three largest organizations, Pro Mujer Nicaragua (PMN), Pro Mujer Bolivia (PMB), and Pro Mujer Peru (PMP).[22] The study revealed that the marginal cost of providing health services was relatively low because overhead costs were dispersed throughout the organization. This low marginal cost of non-financial services suggests that integration can be cost-effective. Moreover, cost allocation showed that the Pro Mujer MFIs have a significant amount of incoming donations specifically for health services, and thus the non-financial component of the entity was more sustainable than initially realized. The cross-subsidization practices mean that funds are generated reliably from the built-in profit engine of interest rates and fees.

2) Competitiveness

Integrated services may improve the competitiveness of an MFI through differentiation from competitors. My interview with Luis Calvo, a manager of Pro Mujer Bolivia, confirmed this idea of improving competitiveness:

> I believe that the social mission of Pro Mujer is what gives our organization a competitive factor. Why? Because many of the rest of the microfinance institutions do not offer you health services, or they do not offer you training services. So the goal for Pro Mujer, in addition to offering high quality financial services, is that the non-financial services will be of such good quality that this is our differentiating competitive factor.[23]

In addition, socially motivated donors (who may value the holistic approach to clients' development over a simply financial focus) also seem more attracted to the integrated model.[24] These increased external donations are also helpful in covering the costs of education or health coverage. This competitive advantage is especially significant for MFIs in today's crowded microfinance markets, where clients must choose between a plethora of organizations offering savings and credit. The push for a 'competitive advantage' should be beneficial to the industry, as it will encourage innovation within MFIs seeking to better understand the needs of their target population.

3) Client Loyalty

The third major benefit observed was increased loyalty and retention of clients. In the experience of those microfinance practitioners in this study, offering clients an extra service such as education on a variety of life topics creates a more intimate relationship between clients and the MFI. The idea that clients become more emotionally tied to such organizations is in agreement with findings from Karlan's study on Finca-Peru.[25] In an interview discussing BancoSol, Patricia Rojas, a products and services analyst at BancoSol's central branch in La Paz, expressed her belief that the training component of the bank would improve the fidelity of clients: "If you are a client and you have your financial entity that gives you increased opportunities, you're going to feel more trusting and will not be as likely to leave the bank." Various employees of Pro Mujer corroborated such claims, reporting that they have received positive feedback from clients who received the additional services. These programs are generally low-cost and contribute to the perception that an MFI is addressing the needs of its clientele in a comprehensive manner.[26]

Social Benefits of Service Integration

1) Client Health

Several of the organizations in my study offered health education to clients (e.g., Pro Mujer, Finca-Peru, and Arariwa), and Pro Mujer was the only MFI to directly connect clients to healthcare. Pro Mujer has performed thousands of Pap smears on women and has given thousands of children vaccinations, thus playing a role in improving maternal and child health in Latin America. My interviews strongly suggest that health training and direct health interventions improve client health. Many Peruvian and Bolivian women struggle to access public health clinics and often do not trust the medical staff. When an organization like Pro Mujer combines the health clinic with the same location providing microfinance services, there is a greater likelihood that women will seek preventative care for themselves and their families.

My research indicates that health education and direct delivery of health services are not only beneficial for clients, but also for the organization delivering them. According to Carmen Velasco, "Even if you don't care about the social component of the program of what you do, if you're clever, you don't want to kill your clients. You want them to be prosperous, and if it's not for social reasons, it's for financial reasons." This quote effectively sums up the logic of why focusing on the health and well-being of clients can be motivated by social *and* financial factors.

2) Education of Clients

My study did not attempt to gather quantitative evidence of the positive social effects of providing education to microfinance clients, but my field experiences and outside literature do suggest that integrating education into microfinance creates positive externalities. In an interview with Jose Ramon, a financial officer at Finca-Peru, he explained the process of how many clients undergo changes in their personal attitude, knowledge, and life circumstances throughout their participation in the integrated credit and education program:

> Generally, when people arrive at our organization, they come with a lot of uncertainty about their future ... So what Finca does is in the first months that a client is with them—they teach them to value themselves, especially women because they have to work so hard, and to have a lot of dedication in their work, and to be persistent. With this training, we see that in the beginning, the women have small businesses, and then they grow with their loans, purchasing capital, and little by little, they grow ... And this begins to change the vicious cycle, helping the women be more persistent, have a goal, and improve their lives and their families.[30]

While anecdotal, this idea is supported by a recent study at a Peruvian MFI not included in my study. In 2007, a randomized control trial was conducted with the clients of PRISMA, a microcredit organization in Pucallpa, Peru. Half of the loan groups in the study were randomized to receive a health education intervention, in addition to the existing microcredit services. The remaining loan groups continued to receive only microcredit services. The results demonstrate that clients had improved health knowledge on issues related to child health after receiving a health education intervention in their monthly loan groups.[27] Whether education programs focus on entrepreneurship, family, self-esteem, or health, many of the practitioners I studied agreed that an education component to microfinance simply makes sense because the target population of MFIs is widely undereducated and often illiterate.

3) Economic Improvement

The final social benefit of integrated microfinance is the added economic progress for the clients. This element can be particularly difficult to measure, given the need to distinguish between economic improvements through solely financial means and the externalities of the social component of the mixed model. A piece of evidence that demonstrates the economic progress of clients in integrated MFIs is the fact that clients in solidarity loan groups are graduating out of their small group loan products, demonstrating that they are financially prepared to access a larger individual loan for their business.[28] In rare cases, clients have succeeded in formalizing their informal businesses, requiring them to move beyond the NGO and work with banks.[29]

UNDER WHAT CIRCUMSTANCES DOES MICROFINANCE INTEGRATION WORK?

Integrated microfinance will not work effectively in every context. In implementing integrated microfinance, it is important that an MFI price the service appropriately and cover these costs with adequate interest rates. Integrated microfinance can work well in countries that have consumer protections in the form of interest rate caps, but that have the flexibility to allow the rates required by integrated programs. Integration may not be possible in countries with rigid interest rate regulations, such as Venezuela, where strict caps decrease the likelihood that higher interest rates could be levied to subsidize the cost of social services.

The case of Pro Mujer also suggests that integrated microfinance can work effectively where a country's public services are weak, allowing an MFI to address a widespread need in the population through the unified approach. Similarly, a country with relatively effective social service provisions should allow an MFI to forge partnerships with other service providers.

CONCLUSION

Microfinance began as a tool for economic development, and many in the field still view poverty alleviation as its primary goal. With increased competition among MFIs and a greater emphasis on profits and shareholder returns, however, many MFIs are potentially losing sight of the sector's original mission of alleviating poverty. This paper argues that one of the most effective ways for MFIs to maintain this original social mission while also remaining financially sustainable is through a deliberate mix of financial and non-financial services. Critics of the integration approach argue that other institutions exist for the purpose of delivering social services to underserved populations. What I wish to stress, however, is the existence of tools within integrated microfinance institutions that can be leveraged in ways unavailable to those focused solely on financial products. According to Velasco,

> It is extremely expensive to cover the overall costs of non-financial programs. But if you piggy-back on the overall costs that you have to incur no matter what if you are a financial institution, (you have to have a general director, a CFO, etc.), you can take advantage of this installed capacity, paying only your direct costs. So it's a perfect marriage, and it assures that your health and training intervention stays on board together with a sustainable and sometimes profitable microfinance approach.

In defending the integrated approach, this paper contributes to the literature on microfinance and suggests a possible direction in which the field may indeed be evolving. It does not suggest that all MFIs should seek to emulate the integrated model, nor that MFIs operating more traditionally are not valuable. Nevertheless, the international microfinance movement should consider alternate approaches towards microfinance as a possible tool that can accelerate the process of improving lives.

List of Microfinance Institutions Included in Field Research

Location	Type of Institution	Type of MFI	Organization	Person/s Interviewed
Lima, Peru	MFI	NGO	Finca-Peru	Director and Financial Manager.
Lima, Peru	MFI	NGO	ADRA- Peru	Manager of Microfinance Portfolio
Lima, Peru	MFI	NGO	Prisma	Director and Head of Social Development
Lima, Peru	MFI	EDPYME	Credivisión	CEO
La Paz, Bolivia	MFI	NGO	Pro Mujer Bolivia	Director of Marketing Unit, Manager of Marketing, Manager of Research and Development, Market Research Coordinator, Product Development Coordinator, Directors of Health Services, Loan Officer, and a client
La Paz, Bolivia	MFI	NGO	Pro Mujer International	Coordinator of Financial Services, Director of Human Resources, and Founder/Director
La Paz, Bolivia	MFI	Bank	BancoSol	Manager of Product Development
La Paz, Bolivia	MFI	Bank	Fie	Manager
La Paz, Bolivia	MFI	NBFI	Fundación Sartawi	Director
Cochabamba, Bolivia	MFI	NGO	Pro Mujer Bolivia	Regional Director
Cochabamba, Bolivia	MFI	NGO	AgroCapital	Manager and Loan Officers
Cochabamba, Bolivia	MFI	NBFI	Fundación Sartawi	Regional Director and Loan Officers
Puno, Peru	MFI	NGO	Pro Mujer Peru	Director
Puno, Peru	MFI	NGO	Prisma	Branch Director
Puno, Peru	MFI	NBFI	CRAC Los Andes	Director, Business Manager, and Manager of Risk Unit
Cusco, Peru	MFI	NGO	Associación Arariwa	Director
La Paz, Bolivia	MFI	NGO	CRECER	Client
Lima, Peru	Rating Agency	n/a	MicroRate	General Manager/Senior Analyst
La Paz, Bolivia	MFI Funder	n/a	Fundapro	Consultant
La Paz, Bolivia	MFI Umbrella Network	n/a	Finrural	Director
Lima, Peru	MFI Umbrella Network	n/a	COPEME	Qualification and Supervision Specialist
Lima, Peru	Research Institution	n/a	Instituto Educación Peruanas	Senior Researcher
Cusco, Peru	Research Institution	n/a	Innovations for Poverty Action	Researcher
La Paz, Bolivia	University	n/a	Universidad Católica Boliviana	Professor
Lima, Peru	University	n/a	Universidad Peruanas Ciencias	Professor

Notes

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