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Letter from the Director



Dear Partner MFIs and ILO Colleagues,

This is the second communication on our experimental field research “Microfinance for Decent Work”. In this issue we will discuss obstacles regarding the collection and treatment of data; the crisis in Andhra Pradesh as seen through the eyes of one of our partner MFIs, BASIX; and further client stories on the impact innovations are having thus far. We are happy to see that many of our microfinance partners have made impressive progress in their survey work over the past six months. Here and there we are even beginning to see some improvements in client benefits as a result of the innovation.

Persevere! We understand how frustrating it is to have to manage two further follow-up surveys and then wait until the end of 2011 to see if there are any tangible effects. However, to the rest of the global microfinance community, you are pioneers! You don’t just talk about social performance, you do it!

Take pride in yourself and your staff. Though we hope to see significant positive change as a result of the implemented innovation, it is possible that we will see little to no difference between control and treatment groups—still, there will be important lessons. Time also plays an important role: it may take several loan cycles and a longer learning process, for example, before a family decides to keep all children at school instead of sending them to work. These are not easy transitions for clients. Patience, eventually we will get there.

Lastly, our joint work is beginning to gain international recognition at the highest levels. The annual meeting of the Social Performance Task Force in the Netherlands will reserve a place in their agenda for a presentation on “Microfinance for Decent Work”. Additionally, the G-20 Global Partnership for Financial Inclusion is eager to see our research methodology transform into a tool to track client benefits as a result of financial innovations.

Financial Inclusion: Achieving Asia’s Potential



The Asia Microfinance Forum (13-15 Oct 2010, Colombo, Sri Lanka) was a great opportunity for more than 400 representatives from Asian MFIs, networks, regulators, investors, technical services providers, NGOs and donors to discuss microfinance issues and ways to achieve financial inclusion in Asia. **Four of our MF4DW partner-MFIs** attended the Forum as

delegates and/or speakers. It gave us a unique occasion for knowledge-sharing on the MF4DW: Action Research. A further meeting was organized on October 14th, and allowed Ms. Benita Sarah (ESAF), Mr. Thun Vathana (AMK), Mr. Chumsam Veasna (VFC), and Mr. Pheng Raksa (VFC) to present their innovations and discuss their progress, lessons learnt and challenges ahead. For more information on the forum, [click here](#).

Research Challenges

All MFIs are progressing quickly with the action research, although at different speeds. On one hand, this is due to slight differences in each design (e.g. rolling baselines, control groups sampled based on product uptake in the target group, etc). On the other hand, the overall research method of the MF4DW—randomised control trials—entails a highly, complex design. Mid-way into the research, we have observed a number of challenges:

Sampling: Baseline reports show that clients in target (TG) and control groups (CG) do not necessarily have identical characteristics. If client characteristics differ, interpretation will be difficult and the **power** of the final results will be weak. In cases where we sample the CG based on characteristics of the TG (e.g. TG clients take new product), we encounter difficulties in extracting the necessary client information from an MFI's management information system (MIS). In one case, the final sampling could only be done in person at the branch. A good MIS is **vital** for good sampling.

Sequence of Steps: Due to the complex research design, we need to strictly adhere to the defined sequence of steps: first, the baseline survey has to be completed in both TG and CG. Upon this completion, only *then* can the innovation be implemented. When ALL clients in the TG have received the innovation (training, new product, etc) can the first follow-up survey be conducted. Consequently, training or product uptake in the TG **must** be completed within the 5-6 months after the baseline survey.

Drop-out Rates: Occasionally, client drop-out rates have been underestimated; consequently, sample sizes have shrunk below the minimum size required for subsequent surveys. If the number of clients falls below the required final sample size, interpretation of innovation impact will be difficult. We must try to include ALL clients from the baseline surveys in ALL follow-up surveys.

Quality of Data: We have received datasets that reflected incomplete questionnaires. This data cannot be considered in the analysis and thus further shrinks the number of valid client datasets. Therefore, it is very important that enumerators note ALL answers and enter all information in the data entry form. If clients give illogical answers, the enumerator must probe in order to obtain logical and complete information.

We received follow-up data in which client IDs and names of the same client had changed from the baseline. If the client cannot be uniquely identified, the data cannot be used and thus shrinks the number of valid client datasets again. Therefore, client IDs and names **MUST** remain constant for ALL surveys. Once verified, we can lock that information in the data entry form so that it cannot be changed.

Data Cleaning and Validating: When performed first by the MFI, this process greatly reduces the time that the ILO needs in order to clean data which, in turn, decreases the time the MFI needs to fill in missing answers or correct illogical answers! Please use our cleaning reports from the baseline survey to implement internal data cleaning measures for follow-up surveys. AMK, ESAF, and NRSP are

doing outstanding jobs on internal data cleaning before sending the data on to ILO.

Table 1: MFI's research progress as of Feb 2011

Stage (Completed)	# MFIs
Baseline survey	2
Implementation of innovation	5
1 st Follow-up survey	5
2 nd Follow-up survey	4
3 rd Follow-up survey	-
4 th Follow-up survey	-

BASIX: The Indian Microfinance Crisis

Backdrop to the Crisis:

The rise of microfinance in India began in the 1990s, with NGOs like Pradan and Myrada—when economic reforms in India played a major role in the banking system. This emerging sector, which initially operated as non-profits, soon made the change to for-profit entities, or NBFCs. By 2010, a large number of players had entered the market and the sector was expanding at an annual rate of 80%.

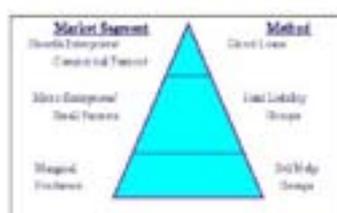
Microfinance today represents a significant sub-sector of the financial system in the country, with 27 million households served by MFIs. The Indian microfinance industry is the largest in the world, yet 27 million borrowers represent only 4% of the adult population of the country (MIX, 2009). This is 50% higher than the households served by Regional Rural Banks and represents 40% of the total number of 'less than Rs. 25,000' accounts in the entire Indian financial system. Despite this, these customers represent 15% of the population (60%) that is financially excluded (MCRIL Microfinance review 2010). The task ahead—reaching out to the unreached through formal sources of credit, savings, and technical assistance services—is daunting.

The Indian MF market, segments, and delivery channels

Microfinance is not just about providing credit to the poorest of the poor. It encompasses a wide range of financial services that the poorest of the poor, economically active or enterprising poor and the not-so-poor are currently not in a position to access through the formal financial sector. The rural economic scenario cannot be classified only as poor and rich. There are many financially excluded intermediate classes and it is within this interdependent economy that microfinance institutions seek to operate. Different channels of lending are required to cater to the different segments of rural economy such as: Self Help Groups



LFS-Credit Delivery Channels



BASIX: The Indian Microfinance Crisis...Contd.

(SHGs) for the poorest of the poor, Joint Liability Groups (JLGs) for the economically active poor, and individual loans for the enterprising, farmer—which can provide much needed wage employment for the poorest. Different channels for different segments; **this principle has been and continues to be, the cornerstone of BASIX' work.**

BASIX has thus worked with the economically active poor, engaging in Livelihood promotion and employment generation with higher value loans to JLGs, Producer Groups, and MSMEs with the extension of technical help through Agriculture and Business Development Services and Institutional Development Services.

The World Bank has been supporting the creation of social capital through various programs and projects run by both Central and State Governments in India. The most prolific among them being the State Government of Andhra Pradesh (AP) framed policies and several programs focusing on growth, including a series of large-scale projects to fight poverty; the most prominent being the Society to Eliminate Rural Poverty (SERP).

An earlier crisis occurred in AP in 2005-6, when the local administrative authorities closed many branches of some MFIs when allegations of illegal operational practices, unethical collections, high interest rates and profiteering arose. Eventually the crisis subsided when MFIs agreed to follow new regulations.

More recently, the media selectively picked up on aspects of these scenarios—additionally linking the situation with several suicides in the state. As a result, an Ordinance was promulgated by the AP Government to purportedly protect the women's Self Help Groups (SFGs) from exploitation by MFIs.

The new ordinance stated that all MFIs should follow a range of new conditions including: administering collections in public areas such as Gram Panchayat offices, registering every MFI branch with local district authorities, transitioning to monthly repayments from weekly repayment schedules, and seeking permission from the local administrative authorities for sanctioning any loan to the SHG member.

While most large-scale MFIs had diversified geographically across the country, the majority of their portfolios remained concentrated in AP, resulting in a drastic drop in collection rates and the absorption of large losses in AP; for many MFIs in AP, operations came to a grinding halt. The impact of the Ordinance was so severe that some MFIs had to close or downscale their operations in AP altogether.

Moreover, the recently commissioned Malegam Committee has not put forth encouraging recommendations (barring a few, such as the creation of separate categories of MFIs). Lending by banks has stalled and today, the situation has resulted in no micro credit available to the 27 million people across the country, who are now

being forced to return to money-lenders. This is a very serious issue and one that necessitates immediate and positive regulatory intervention. At present, the country awaits the Reserve Bank of India's recommendations, which if accepted in total, will begin a severe setback to the financial inclusion agenda of microfinance institutions.

BASIX Perspective:

With product differentiation as a buffer during this difficult time, BASIX has stayed connected to its internal and external stakeholders via regular and periodic updates—keeping them abreast of the situation.

For BASIX, several of the Ordinance's new conditions did not affect business as usual. Since its inception, BASIX has *always* offered a monthly repayment schedule, moderate interest rates, a variety of livelihood promotion services (rather than concentrating solely on microcredit), and cordial relationships with clients. However, conducting collections in public areas and the registration of every branch were new changes for BASIX.

Linking the Crisis to BASIX's Action Research Innovation:

As part of the MF4DW action research, various activities undertaken through the Agriculture and Business Development Services (AgBDS) and SWASTH program aided in maintaining further client connections, while providing services to reach out to clients directly. Even during this challenging situation, clients continued to avail our services. AgBDS services also influenced customers to continue paying their loans as these programs resulted in their skill enhancement and monetary benefits through their increased productivity. Further AgBDS activities such as village level exhibitions/stalls, meetings, demonstrations, and animal health camps—all linked to customer-connect programs—helped BASIX in reaching existing clients, as well as potential ones. The SWASTH program also helped gain client acceptance as it has significant social concepts, helpful to the customer good.

The crisis in AP has also affected implementation of the SWASTH program. After the Ordinance passed on 15th October 2010, our offices in AP closed for about a week; the safety of employees and the avoidance of damage due to political and communal riots were top priorities. For approximately 30 days, BASIX could not conduct until all MFI registrations were completed with local authorities. Therefore, MF4DW project activities were delayed by 45 days. Additionally, the crisis disrupted further group meetings that could not be conducted as per plan. As a remedy, BASIX adapted the implementation process to individual sessions and follow-ups trainings in order to complete trainings on the ILO's WIND (Work Improvement in Neighborhood Development) material.



Swasth project: WIND trainings with community

Client Stories: Innovations in Action

TYM: Effectively Putting Knowledge on Risk Management and Micro-Insurance into Practice



“Learning about risk management and micro-insurance makes changes in my family. We are now aware that protecting the family from risks is required to start from the simplest things we did not pay due attention to before”

Mrs. Nguyen Thi Tam, TYM member

In the framework of the MF4DW action research, Mrs. Tam was invited to attend a course on “Risk Management and Micro-insurance” – and she did. After the course, Mrs. Tam appreciated that the contents were beneficial and practical, and that she could apply the new knowledge in her daily life. In particular, she has now made plans for the whole family to protect against risks in simple ways, for example, by wearing helmets when riding motorbikes, always bringing raincoats, and vaccinating cattle and poultry against epidemics.

The course deepened her knowledge of micro-insurance: the credit insurance, life insurance and health insurance of the TYM Fund. She understands that weekly savings will help her and her family as a coping strategy to face unexpected expenses and to build up financial assets. She discussed with her husband and children on how to spend money economically, and contribute to voluntary savings in the TYM Fund. Currently, she deposits VND 45,000 per week and plans to increase this amount to VND 100,000 per week.

Besides introducing TYM programs to her family members, Mrs. Tam eagerly shares her knowledge on risk management and micro-insurance in regular meetings of the Local Farmer’s Union in her hamlet and commune. That inspires the locals and increases their understanding of the TYM Fund, as well as its numerous practical applications.



LAPO: Education Loans as a Means of Reducing Child Labour

“This is the best loan I have taken since I joined LAPO in 2006. My daughter – a primary 6 pupil – was barely 3 years old when her father died. I make little profit; I need to feed my 3 children, and get little or no support from relatives. When trying to make ends meet, sending my children to school is not the highest priority, even though I understand how important it is for them to be educated. Thanks to the educational loan, I can now pay their school fees and buy text books. The loan has helped me to send my child to school, and has taken away the fear of putting my child on the street to hawk some day.”

Mrs. Owoyele Bumi, a LAPO micro-entrepreneur

The school-fees loan innovation was offered to clients in 2010 as a way of granting opportunities to poor client’s children to either re-enroll in school or pursue an educational career in better conditions, thus reducing the incidence of child labour and its latent functions that affect a child’s school performance. LAPO found that parents often do not deliberately keep children out of school and make them work. More often, parents are not able to pay school costs, so they can no longer send their children to school. Once a child is idle or not attending school, s/he can very easily find themselves involved in the family business or other income-generating activities. In addition to the education loan, LAPO sensitizes parents on the risks of child labour. LAPO education loan has, according to responses from interviewed clients, brought hope and relief to families as the major challenge of paying children’s or dependent’s

school-related expenses has been economically provided via the ILO-LAPO innovation project.

Mr. Olayinwola O.T. is the principal of a school where children of LAPO clients who are currently benefiting from the innovation loan are in attendance. He commented that one such student, Miss Bamgboye Eniola who hopes to become an engineer one day, is a technically inclined student who should be encouraged by all as very few girls are interested in technology courses. He further explained that the school was one of the best in that locality and that LAPO should keep up the good work!



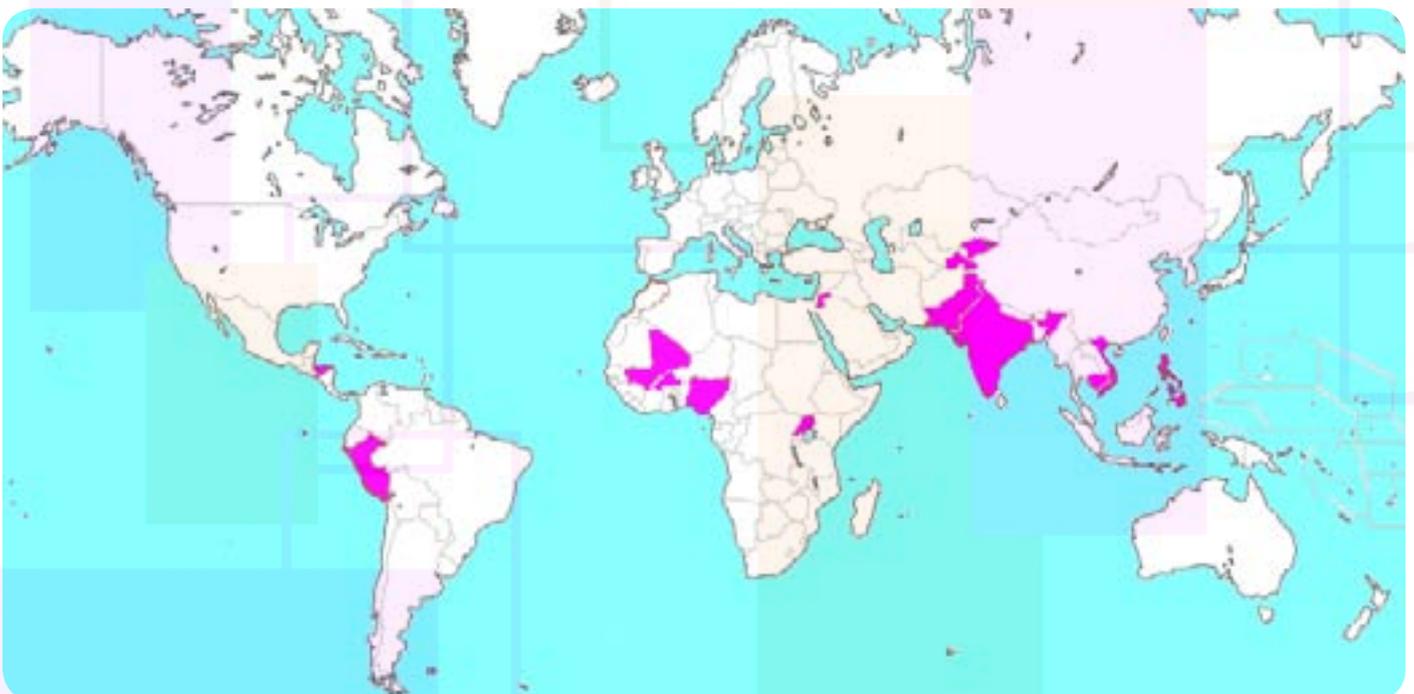
VisionFund, Cambodia Receives CGAP Gold Award

The Gold Award for Social Performance Reporting—as developed by CGAP (Consultative Group to Assist the Poor), the Social Performance Task Force (SPTF), the Michael & Susan Dell Foundation, and the Ford Foundation—is awarded by the Microfinance Information Exchange (MIX) when an MFI completes, implements, and reports on a full range of social performance mechanisms. For more information on VisionFund's recognition, [click here](#). Congratulations!

Table of MF4DW: Action Research Partners

RFI	Country	Area of Decent Work	Innovation
AMK	Cambodia	Risk Mgmt./Over indebtedness	Financial Education training of Client Officers
Bai Tushum	Kyrgyzstan	Productive Employment/Formalization	Introduction of SME Window/Training
Bancovelo	Honduras	Risk Mgmt./Over indebtedness	Introduction of micro-insurance product & Training
BASIX	India	Working Conditions	Client training on ILO WIND methodology
Confianza	Peru	Risk Mgmt./Over indebtedness	Introduction of micro-insurance product & training
ESAF	India	Productive Employment/Formalization	BDS training
IMON	Tajikistan	Productive Employment/Formalization	Entrepreneurship training & loan for women
LAPO	Nigeria	Child Labour	Soft loan for school fees and CL sensitization
NRSP	Pakistan	Child Labour	Modification of Health Insurance product
NWTF	Philippines	Risk Mgmt./Over indebtedness	Client training on ILO GIYB methodology & Individual Emergency Fund
Nyèsigiso	Mali	Child Labour	Combination client training on ILO GERME, CL, & WIND material
PRIDE	Uganda	Risk Mgmt./Over indebtedness	Introduction of micro-leasing product
RCPB	Burkina Faso	Productive Employment/Formalization	Information, awareness raising, incentives
Tamweelcom	Jordan	Working Conditions	Information leaflets on Working conditionsW
TYM	Vietnam	Risk Mgmt./Over indebtedness	Training on Risk Management & Mutual Assistance Fund (insurance)

Map of MF4DW: Action Research Countries



Special thanks to BASIX, TYM, and LAPO for their submissions to the second addition of the MF4DW NewsFlash!