

Beyond Traditional Microfinance: Attacking Extreme Poverty to Pave the Road to a Better Life

THE CHALLENGE: TO REACH 5,000 FAMILIES THAT LIVE IN EXTREME POVERTY, FAMILIES TOO POOR FOR TRADITIONAL MICROFINANCE PROGRAMS, MAINSTREAMING THEM INTO CONVENTIONAL MICROCREDIT WITHIN SIX TO EIGHTEEN MONTHS.

Background:

Fonkoze is unique among microfinance institutions in Haiti. It brings financial services to areas where they are not otherwise available, and makes those services sustainable. Its 30 branches reach deep into remote rural areas, offering products that make its conventional microcredit programs sustainable, even profitable. The branches provide an infrastructure that permits it to introduce new programs smoothly and expand them rapidly and to do so in a country that otherwise has no reliable infrastructure at all.

It is also unique in its commitment to reaching families living at all levels of poverty. Microcredit can help many poor Haitians help themselves, but there are others who live beyond its reach. Those living in extreme poverty do not request microcredit loans. They do not succeed in programs that offer microcredit by itself. They are also the people least likely to be reached by other development interventions.

The quality of the lives the extremely poor lead is deplorable. These people live with perpetual hunger, on dirt floors, without running water or even latrines, without access to basic health care, unable to send their children to school. They live without hope, without dreams.

The Approach:

Fonkoze is pioneering a breakthrough approach to helping the extremely poor, preparing them to join its core solidarity-based microcredit program. It includes two programs that address different segments of the extremely poor population: *Ti Kredi* (Little Credit) and *Chemen Lavi Miyò* (The Road to a Better Life).

Ti Kredi is microcredit with extremely small loans (\$26-\$50), shortened repayment cycles, and intensive training. It helps clients who would fail if they tried to enter the standard program immediately, but who only need a small motivational boost and some close accompaniment as they get their businesses off the ground. They could be experienced businesswomen, living with HIV/AIDS, who haven't worked for a long period due to their illness. Or they could be women without experience, motivated to pursue a reasonable business idea, who need a disciplined structure as they learn to manage the resources microcredit makes available. Within six months, such clients are ready for the transition to the standard program.

Chemen Lavi Miyò is a radical approach to changing the lives of the poorest of the poor, an eighteen-month process including transfer of an income-generating asset (such as a pair of goats), intensive training, close supervision by a case manager, medical assistance if needed and other types of support. After eighteen months, a family that previously had no assets of any kind

will be managing a sustainable business on their own, will hold a small savings account, and will be prepared to access the credit that growing their business requires.

Chemen Lavi Miyò requires more up-front investment than traditional microcredit programs because it is dealing exclusively with the extremely poor. The clients whom it serves tend to live without hope, looking at their impoverished lives as though they are their only possible destiny. Very intense, one-on-one work must begin with coaching the women to believe that they and their families could live another way. It also involves extensive training in an income-generating activity chosen for its appropriateness to the community where the client and her family live. Finally, there is the transfer of the asset that allows the client to begin working to change her life.

While such a program must be more expensive than standard microcredit, the results it achieves are beyond anything that other microfinance programs can hope for in terms of alleviating unnecessary human suffering. Changing the lives of the extremely poor – helping families that are landless, that must worry whether they eat every day, with children who never have been to school, without access to the most basic health care, without any asset that could generate even a small income, without dreams, without hope – represents a societal benefit of an entirely different order, one that totally market-based approaches will never be able to achieve.

For the aid programs that traditionally have sought to address such families' needs, the families are black holes, absorbing resources unendingly. *Chemen Lavi Miyò* costs only \$920 per family. This amount suffices to mainstream a family from destitution to being microfinance ready, and then ultimately out of poverty through standard microfinance. Yet it pales in comparison with the amount of money governments and international aid agencies are currently spending to keep families like these alive through provision of relief. This kind of support does little except extend dependency rather than providing the structure needed to break through it.

The *Chemen Lavi Miyò* method is not a theory, but proven success. Developed by BRAC in Bangladesh, it has been through ten years of development and testing and is now helping women move their families out of extreme poverty and into microcredit every day at a cost of less than \$300 per family over the entire 18-month period. BRAC and the Consultative Group to Assist the Poor, an agency of the World Bank, are collaborating closely with Fonkoze to ensure the program's effective introduction into Haiti. An initial pilot is currently underway in three of Fonkoze's branches.

The Results:

A \$558,323 grant to Fonkoze's programs for the extremely poor will, in just the first year, cover all the costs of providing *Ti Kredi* to 1,200 families who would not be qualified for conventional microcredit. The cost per family is only \$87. After the first year, interest from loans can assure access to the program for an additional 1,200 families annually, bringing the overall total to 12,000 families. That same grant will provide the full complement of *Chemen Lavi Miyò* services to 500 families from among the poorest of Haiti's poor. All participating families would be ready for standard microcredit within six months to two years. If we assume that each family will continue taking microcredit loans for another 5 years, we project a total of 113,000 follow-up loans.