Target Community

Introduction

One of the major messages of this book is that understanding the particular assets and needs of the people to whom you want minister is crucial for designing an effective anti-poverty response (see *Design Principle #6: Fit the Target Population* in Chapter 9). Chapter 9 examines how microfinance-related services vary by income level, and this paper examines five additional dimensions of poor households that should be considered in order to design a microfinance ministry that best fits the target population.

First, since poor households use a range of livelihood or business strategies in order to earn some income, this paper examines how those various strategies can result in different types of microfinance needs.

Second, microfinance ministries need to understand the complex family situations of poor households. In collectivist societies the nuclear family of husband, wife, and children is not always the dominant family model. Rather, households are often comprised of multiple generations, and extended family members often live nearby. There are both benefits for and demands placed upon extended family members that are relevant to microfinance ministries.

Third, microfinance ministries must understand that harmonious loving marriage relationships are crucial to success in livelihood, money management, and microfinance. Marriage is thus both an important variable to consider and a possible relationship to strengthen through microfinance ministry.

Fourth, it is important to consider some of the major religious variables that emerge out of the beliefs and practices of the churches pursuing the microfinance ministry as well as the larger religious context in the community and country.

Finally, there are a number of cultural issues that should be taken into account when considering and designing a microfinance ministry.

Business Issues for Vulnerable Households

As pictured in Figure 4.1 in Chapter 4, only 180 million of the 1.6 billion working age people with income below $2/day rely primarily on their microenterprises to survive.[1] This begs the question, how do the other 1.4 billion people in that poverty group earn income to feed their families and survive? The research done by *Portfolios of the Poor*[2] confirms what many ministries know through experience: in order to survive, many poor households creatively mix income from a variety of sources, including wages from regular jobs (full or part-time), casual work, remittances, payments from government welfare, and self-employment through microenterprises or agriculture/gardening. The "microfinance-for-households" approach recognizes that poor families need a variety of financial services—including savings, loans, and insurance—to help them manage the irregular and unpredictable incomes they receive from these multiple sources of income.

Even if we focus solely on income from self-employment in microenterprises, there is a range of business types, each of which requires a slightly different financial service in order to fit the needs of the target population well. Indeed, microenterprises have great variation in terms of their size, their sector in the economy (production, services, retail, etc.), their sub-sector (shoemaking, carpentry, tailoring, metal works, etc.), and their level of business development.

Let us look more closely at the level of business development, which is often positively correlated to the household level of poverty. *Unstable survivor* microenterprises are operated by poorer households and rarely grow since the households often use business capital to buy food, medicines, and other needs.[3] This consumption smoothing behavior can actually shrink working capital to nearly zero until new lump sums of money are found to recapitalize the microenterprise. Even though most microfinance ministries might have anecdotes of such tiny businesses being transformed by financial services alone, it is not reasonable to expect an *unstable survivor* business to grow without a larger set of changes in the entire household's vulnerable economic situation, including training of various types, social support, and spiritual transformation. In other words, financial services are only one part of the holistic theory of change described in Chapters 5-7.

Moving up the scale of business development is a second group of microenterprises called the *stable survivors*.[4] Most households operating these businesses are less vulnerable and often have some wage employment or remittances that can help them manage emergency expenses. Sometimes, but not always, these households have more entrepreneurial aptitude. While they periodically might have to use some of their business capital for consumption smoothing, this is not the norm. Stable survivor microenterprises can absorb larger lump sums of money since the household risk is lower and they are more likely to invest more of their lump sums of money fully in the business. For these reasons stable survivors are a major target group of MFIs since their businesses are more likely to survive when they get access to MFI credit and savings services.

The third type of microenterprises, *growth businesses*, are usually found in even less vulnerable households. Their operators have business experience and know how to take risks, but they usually have little management experience. They tend to build their business capital slowly using family assets and informal sector loans. They often have some fixed business assets like equipment and space, are more permanent than the other levels of business development, and do some business planning. In principle, these businesses can grow and can hire new workers when they get loans for their businesses, although as Chapter 4 discusses, such employment generation is usually very small. These businesses are much more likely to benefit from small business training and other types of Business Development Services, including accounting training and systems, marketing advice, and assistance in choosing new products. Men usually operate growth businesses, while women's businesses tend to start smaller and stay smaller.[5] MFIs seek to serve growth businesses because they can absorb larger loans than stable survivors.

A failure to recognize these different business types can result in the design of financial services that do not fit the target population well. For example, combining unstable survivors with growth enterprises in a SCA could result in the growth enterprises getting larger loans that utilize most of the SCA's capital, leaving little capital for the smaller, higher risk microenterprises. In addition, the SCA might decide to make the saving contributions or loan sizes so big that the smaller microenterprises can no longer afford to participate in the group. MFIs have learned that mixing unstable survivors with growth enterprise operators in the same group can slowly force out the more vulnerable members, who can no longer afford to co-guarantee the larger loans to the more entrepreneurial group members.

Focus on the Larger Household and Extended Family and Not Just on the Individual

There are economic and practical reasons for considering the household as the necessary focus of microfinance ministry rather than the individual poor person. Most households have a common pot of money into which they put the various sources of incomes and out of which they withdraw money to pay for the larger household expenses. Culture is one reason for this practice. Because Global South countries are primarily collectivist, seeing the individual as a member of a larger group, income is often received from many different household members as well as from distant relatives who periodically remit money to the household. There are economic forces behind this practice as well. Since incomes in poor households are low, irregular, and unpredictable, it is helpful to reduce the overall risk by diversifying the sources of income. Hence, if microfinance ministries want to learn about the economic situation of an individual, they really need to ask questions that seek to understand the economic situation of the family and even its relatives.

On the expense side of the household economy, the common household pot of money is used for the needs of everyone, including basic needs, emergencies, life-cycle needs, and investment opportunities. Once money goes into the household pot, no matter what the source, the money is "fungible" in that each peso is considered to be the same as any other peso and can be used wherever it is needed the most.[6] Because of this fungibility, households frequently shift money from recapitalizing their businesses to paying for emergencies, particularly for medical expenses.[7] Some might even sell or pawn business assets such as a sewing machine or refrigerator to treat a sick child. One important implication is that microfinance ministries should encourage the people they serve to create emergency funds with members' savings and/or help the families discover and access different types of microinsurance products that might be available in the country.

Those distant relatives do not just send money into the pot; they can also request to receive all sorts of assistance. For example, the HIV/AIDS epidemic in Africa has forced families to absorb orphaned nieces and nephews and other desperate relatives, disrupting millions of households and adding additional financial stress. Microfinance ministries in this type of context should be considered very successful if they can help households remain at the same level of consumption as they grow larger by adding orphaned extended family members.

There are other times, however, when requests from needy relatives can be so frequent and unreasonable that it is difficult for a household to sustain its own consumption or to function properly. For example, an alcoholic cousin can drain the households' pot through constant requests for money. If the household cannot say no to these "moral claims" on its money, it can sometimes convert its cash into forms that are immune from such moral claims.[8] For example, the household might seek to save in a ROSCA or an ASCA, which in some cultures is recognized as having equal priority to helping relatives in need.[9] Microfinance ministries must learn about the larger set of moral claims that face households so that they can design financial services that give families the flexibility to respond well to reasonable moral claims and to resist those that are unreasonable.

The Importance of Marriage in Microfinance Ministries

The marriage is particularly important for determining the economic well-being of the entire household, for the relationship between the husband and wife has a dramatic effect on the entire household's livelihoods, incomes, and consumption. Microfinance ministries should continually look for creative ways to strengthen the institution of marriage, for a stable, two-parent family is one of the key vanguards against poverty. For example, one MFI in Manila encouraged all of its borrowers who were living in common-law marriages to take the legal step of having a civil marriage, as this can help reduce the vulnerability of women and children to abandonment by common-law husbands.

Amongst the many issues in marriages is that cultures often place limits on the particular types of work that men and women can do. For example, gender roles might assign men to operating off-farm businesses and women to doing the gardening at home. However, the pressures of modern economic globalization are now forcing families to change some of these gender roles, but it is not always an easy adjustment and can create challenges for microfinance ministries.

For example, the Grameen Bank faced extreme opposition from Islamic clerics and local leaders in its first fifteen years because it encouraged women to borrow money to operate microenterprises. However, over the last twenty years, changes in the Bangladesh economy and the rapid growth of MFIs there have forced men to adjust to the fact that their wives are now earning income and have disposable money that they can at least partially control. Similarly, some Christians see Proverbs 31 as a model for an economically active wife, but not all Christian husbands see it this way, which can cause them to resist microfinance loans being given to their wives.

Marital relationships and roles also help determine how households save and spend their income. Nobel Laureate Muhammed Yunus, the founder of Grameen Bank and the father of the modern microfinance movement, believes that microfinance should invest primarily in women, who tend to see the impacts of poverty on their children more closely than their husbands do. As a result, women may be more willing than men to work hard and to delay immediate gratification for the future of their family. Yunus believes that men in most countries usually do not have the same longer-term outlook. Perhaps because of gender roles, just plain selfishness, and greater physical strength, some men take the family's money for their own consumption rather than saving and investing for the future education of their children, for their own old-age needs, etc. Obviously, such behavior negatively impacts the entire family.

The Bible teaches that the husband is the "head" of the wife and that wives should submit to their husbands (Ephesians 5:22-24). But this does not authorize domineering and selfish attitudes and behaviors for husbands, who are called to love their wives in the same way that Christ loved the church and gave Himself up for her (Ephesians 5:25-33). Microfinance ministries should look for opportunities to communicate these truths to husbands and wives in contextually-appropriate ways. In addition to being good for the marriage, if husbands can be convinced to think longer term about the welfare of their entire families, their consumption patterns can change. The money used to buy cigarettes or alcohol can instead pay for school fees or for better food for the family. Similarly, in marriages in which the wife is selfishly squandering money, helping her to love her husband and children more can result in healthier expenditure patterns for the family as a whole.

Religious Beliefs and Practices of the Church and Community

The religious beliefs and practices of churches and communities can have a significant impact on the design of a microfinance ministry. With respect to churches, a number of issues come into play:

- Some churches are unwilling to support any ministry that charges interest, believing that charging interest is not biblical;
- Some churches do not want to follow sound microfinance practices in terms of requiring people to keep their agreements to pay on-time. At times they use theological justifications for this, focusing on grace and forgiveness rather than self-discipline and accountability. Such practices can undermine the credit culture in a region by teaching people that they do not need to be serious about repaying their loans, particularly loans that are affiliated with churches. Thus, it is extremely important to learn about any history of the churches' involvement with microfinance in the past to determine if a church-centered microfinance ministry is viable in the region.
- Many denominations and churches in the global south are hierarchical in structure with very clearly defined leadership roles and sometimes limited autonomy at the local congregation level. It will often be necessary to build relationships with appropriate decision-makers in the denomination or church hierarchy in order to start a microfinance ministry with individual congregations. Orientations and trainings about microfinance ministries might have to occur at multiple levels within the denomination and churches to be able to move forward in ministry.
- Some churches only permit male leadership, and males often want big loans for business as quickly as possible. As a result, they do not always appreciate the slower capital buildup and the smaller loan sizes that are common in SCAs. Lack of support or opposition from male church leaders can slow down or stop new microfinance ministries.

- Geography can play a role in how receptive churches are to various microfinance ministries. For example, HOPE International has found that rural churches are often more receptive to SCAs than urban churches, possibly due to rural areas having fewer microfinance alternatives or to their having greater social cohesion than urban areas.
- Sometimes churches are unwilling to accept non-members or unbelievers into their microfinance groups because they are not interested in outreach. Although it can be challenging to incorporate a mix of people into the group, doing so can also yield great rewards. Indeed, God has used many microfinance ministries to bring people to saving faith in Jesus Christ.
- Some churches are fearful of accepting unbelievers into their microfinance groups for fear that their own church members could perform badly and be a bad testimony to the unbelievers. For example, in the very first MFI group that Russell Mask studied in the Philippines, the pastor's wife did not repay a loan she had taken from the group's savings account, and then the pastor and his family moved away, angering both the believers and unbelievers in the group. It is important for microfinance ministries to challenge the Christians group members to be salt and light in the program, which includes their keeping their promises and commitments.

Non-Christian religions can bring other dynamics into play as well. For example, microfinance ministries that desire to serve practicing Muslims need to be sensitive to the fact that many Muslims believe the Koran forbids the charging interest. Hence, if your microfinance ministry hopes to include Muslims, it will be important to make sure that the financial services being offered are acceptable to the Muslims in your region. The microfinance movement is finding creative ways to create financial products that are consistent with Muslim teachings, so you can find many online resources to help you with this issue.[10]

Other important cultural characteristics

While outsiders must be careful to not overgeneralize about culture, there are certain cultural issues that can make it difficult to work effectively and efficiently with poor people, including the following:

- Greater cultural cohesion usually makes it easier for people to form groups that can support each other and, when necessary, to pressure each other to keep their agreements.[11] In some countries conflict between tribes or ethnic groups can cause the group formation process to take more time and thus be more costly for the program.
- Some countries and regions are characterized by low levels of trust due to deep-seated worldview issues, inter-tribal conflict, or civil unrest. Because trust is the very foundation of a financial system, it is more difficult to start a microfinance ministry in such contexts.
- Some cultures do not have a strong sense of the future, which can make it challenging for them to think about long-term savings.
- Cultures can differ in their perceptions towards savings, loans, and financial systems, which can greatly affect how willing and receptive people are to borrowing money, paying interest, and repaying loans.

Application Exercise

If a microfinance ministry fails to understand the characteristics of the target community, it can result in the ministry creating financial services that do not meet the needs of the target community. As a result, the ministry could struggle or even fail, possibly doing harm to everyone involved. At the same time, do not get paralyzed by the complexity in each context. Do your best to learn as much as possible about your target community before you begin a microfinance ministry, but also realize that you will need to learn as you go. Try a few things; see how it goes; and then adjust.

Ask the following questions of people in the target community to help you to learn more about how to best serve them. As you do so, it is very important to apply the **Integral Mission Principal***: The global body must function in such a way that the local church is able to use its gifts to engage in integral mission: proclaiming and demonstrating among people who are poor the good news of the kingdom of God in a contextually appropriate* *way.* This means that the local church (or organization) in the Global South should be the ones doing the interviews in the community. They understand the local culture better than outsiders, and it is important from the very outset that they are seen as the embodiment of Jesus Christ in their community. The role of the outsiders in this process is a supportive rather than a frontline role: providing encouragement, prayer, technical assistance, and appropriate input when asked.

If you are a missionary working in a frontier region where there is no local church, you may have to pay a more hands-on role. But even in this case, we still encourage you to use local people to conduct the interviews as much as possible.

1. What types of businesses do people typically operate? Is the answer to this question different for men than for women? What sorts of financial services do they desire?

2. Do the businesses appear to be *unstable survivors*, *stable survivors*, or *growth enterprises*?

3. What characteristics of households in your target community are very relevant for designing a microfinance ministry? Some examples could include: household members are remitting money from abroad; many common-law marriages are contributing to tenuous marriage relationships; spousal abuse is undermining marital stability; etc.

4. What are the attitudes of husbands about their wives earning money outside the home?

5. What do Christians and church leaders feel about savings, loans, interest, and insurance? What do they think about having unbelievers and believers in the same microfinance groups?

6. Are there any non-Christian religions represented in the target community? What are their attitudes towards savings, loans, interest, and insurance?

7. Have any previous relief and development interventions in the community created a "dependency syndrome" or taught people that they did not need to keep their agreements?

8. What microfinance programs have been started in the past? Whom did they serve? How did they serve them? Did they follow sound microfinance principles as summarized in the *Financial Systems Design Principle*? Did they create a strong credit culture, or did they teach borrowers that they do not need to repay their loans?

9. Do community people trust each other? Is there evidence that they form community associations or microfinance groups? Whom would they be unwilling to accept into microfinance groups and why?

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[1] Oliver Wyman, *Sizing and Segmenting Financial Needs of the World's Poor*. Unpublished paper commissioned by the Bill and Melinda Gates Foundation, 2007.

[2] Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven, *Portfolios of the Poor: How the World's Poor Live on $2 a Day* (Princeton, NJ: Princeton University Press, 2009).

[3] Joanna Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective* (Washington D.C.: The World Bank, 1999).

[4] Ibid.

[5] Ibid.

[6] D. Adams and J.D. Von Pischke, "Fungibility and the Design and Evaluation of Agricultural Credit Projects," *American Journal of Agricultural Economics,* vol. 62 (1980), 719-726.

[7] M. Cohen and M.J. McCord, *Financial Risk Management Tools for the Poor.* Microinsurance Centre, Briefing Note #6, 2006.

[8] Economists call converting cash into things difficult to turn back into cash an "illiquidity preference." Savers in wealthy economies often practice this illiquidity preference by placing savings in longer-term certificates that cannot be withdrawn without incurring a severe penalty. See J.D. Von Pischke, *Finance at the Frontier: Debt Capacity and the Role of Credit in the Private Economy* (Washington, D.C.: The World Bank, 1991).

[9] Ibid.

[10] For example, see Nimrah Karim, Michael Tarazi, and Xavier Reille, *Islamic Microfinance: An Emerging Market Niche* (Washington D.C.: CGAP, 2008), no. 49.

[11] Though working with people who are blood-related can reduce repayment incentives. See B. A. De Aghion and J. Morduch, *The Economics of Microfinance* (Cambridge, MA: MIT Press, 2005).