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MICROFINANCE AND INVESTMENT IN HUMAN AND SOCIAL CAPITAL

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Abstract*: Although microfinance has traditionally meant micro-credit, not all microfinance institutions (MFIs) restrict themselves to microcredit. One can make a distinction between minimalist MFIs that only provide microcredit, a second group that provides other kinds of financial services as well, a third group that provides capacity building and finally, a fourth group that provides social services and other development services. In this paper, we ask the question as to when a more expansive approach to microfinance might be justified and suggest that a market failure theory of financial exclusion can be used to answer this question. We then examine one particular south Indian MFI, Evangelical Social Action Forum (ESAF) and argue that while an associated focus on capacity development can be justified, ESAF's expansion to the provision of broader social services such as health and social advocacy may not be more difficult to justify on purely economic grounds. We suggest that the analysis of ESAF could be used as a model, both to understand the choice of MFI missions, as well as to prescribe the right mission and goal for MFIs in different environments.*

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Introduction

Although microfinance has traditionally meant microcredit (i.e. the provision of small loans), microfinance today is a much more complex institution. While there is general consensus that microfinance needs to be about the provision of broader financial services, not all microfinance institutions (MFIs) have expanded their mission from microcredit to include other financial services, such as savings vehicles and insurance. There is even less consensus that the provision of financial services, in turn, needs to be broadened to provide access to business know-how.[1] Finally, we can talk of yet another extension to microfinance to include the provision of human development needs. Although there is not unanimous agreement on the names for these different approaches, we can call them microcredit, microfinance, expanded microfinance and integrated microfinance, respectively. We will make a distinction between the first two approaches which deal purely with the provision of financial services and the latter two approaches, which go

1 See Morduch (2000) for a discussion of the controversies regarding going beyond the provision of financial services.

beyond this and which we will refer to collectively by the term microfinance-plus.[2] Researchers have taken MFI classifications into these different groups as given and examined their differences in terms of mission drift and profitability. [3] They have, however, not considered these categories from a normative point of view. In this paper, we will look at the conditions under which MFIs should restrict themselves to pure microfinance and when they should move to a microfinance-plus framework.

Let us begin by looking at examples of organizations that fall into these four classes. An example of a pure microcredit organization is SKS Microfinance, based out of Begumpet in Andhra Pradesh, South India. It is listed in the MixMarket database as having three different products -- Income generating loans, Mid Term Loans and Loan Cover Insurance, though its website has a larger variety of loans, such as mobile loans and solar loans. Its website also says that they provide micro-insurance products, but these seem to be minimal and distributed on behalf of another vendor.[4] Similarly, Chaitanya based in Bangalore, also in South India, only seems to have loan products, though, once again, its MixMarket description includes loans and insurance.[5] There are many examples of more general microfinance providers, since from a purely business point of view, it makes sense for a microcredit provider to use its clientele basis to sell other financial services, as well. As far as an example of a microfinance provider, we can look at KGFS, an MFI in Tamilnadu, which has gone beyond microcredit, but has chosen not to go beyond the provision of financial services.[6] One of their cardinal rules is that they will not cross the line into participating in any way in the running of the business, even to the extent of providing management advice.[7]

These two approaches, while distinct, embody a similar logic and can be said, in some sense, to be different in degree and not in kind. However, moving from microfinance to extended and integrated microfinance calls for a very different viewpoint. It requires one to buy into the notion

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2 Lensink, Mersland and Nhung (2009) use this definition of microfinance-plus, which is consistent with the sense in which we use it: "Microfinance-plus refers to the provision of developmental services to customers, such as training or health services, alongside financial services." Of course, business training is only relevant to recipients of microloans that are destined for business purposes, whereas the provision of broader education and other social services would be relevant to recipients of all microfinance clients.

3 For example, Frank (2008) looks at the impact of transformation of NGOs (generally focusing on microcredit) to regulated financial institutions (generally offering non-credit financial products as well) on the type of clients served. Hermes, Lensink and Meesters (2011) look at the trade-off between outreach to the poor and efficiency of microfinance institutions. Lensink, Mersland and Nhung (2009) find that find that "MFIs that provide social services in addition to financial services perform worse financially but better in terms of reaching out to the poor."

4 See http://www.sksindia.com/what_we_do.php.

5 See http://www.chaitanyaindia.in/products.

6 Their three basic operating principles are a) geographic focus (to capture the uniqueness of each location), b) wealth management approach (to focus on the total financial well-being of the client's household) and c) wide range of financial products (credit, insurance, savings and remittance products). In addition to providing credit to their customers, KGFS also helps them with life insurance for the breadwinner of the family, as well as property and casualty insurance for the business assets acquired with loans, such as the cows, goats and tractors. They also facilitate access to new financial products such as crop insurance and rainfall insurance. See their website http://ruralchannels.ifmr.co.in/kgfs-model/about-kgfs for more information.

7 Private communication; however, this is also implicit in the messages on their websites.

that financial inclusion and human development issues, such as health and education and even business education, are not only different aspects of economic development, but inextricably related – that one cannot improve a person's financial well-being without improving his health and perhaps, even in reverse, that one cannot improve a person's physical and emotional well-being without providing him with financial services to enable him to deal effectively with the market economy. Although this approach is different, it is not necessarily new. Already thirteen years ago, Fisher and Sriram (2002) put out a cogent call for microfinance to refocus on development; however, with greater visibility and especially after Muhammad Yunus's Nobel Prize, the emphasis shifted to sustainability (i.e. economic viability) and integration with financial markets.

Now, perhaps due to the many research studies showing that microcredit by itself does not adequately alleviate poverty, quite a few MFIs have chosen a microfinance-plus approach, as manifested in the extended and integrated forms of microfinance. Adhikar, based in Orissa, is an example of an expanded microfinance provider. According to its website, it has four different divisions: cooperatives, money remittance, microfinance and livelihood. In terms of microcredit, it follows the joint liability group model to provide loans, though it also provides insurance. In its cooperative work, it provides capacity building services, under which it provides education in planning, product development and management development. ESAF, in Thrissur, Kerala, goes beyond the provision of financial services and business development education to the provision of non-financial and human development services; as such, they may be termed an integrated microfinance institution. As their publicity materials state: "Beyond micro credits, ESAF provides a combination of micro financial and non-financial products to the bottom of the pyramid, with a focus on micro insurance, business development services, training, research and advocacy, consultancy, networking, community health, education, disaster management, rehabilitation and natural resource management."[8]

In this paper, we will briefly examine the case for the microfinance-plus approach to microfinance – that is, the argument that financial services should be provided together with other services that help address the human development needs of clients. We will then look more closely at the history and circumstances of one microfinance institution, ESAF, to investigate further the question of when an MFI might choose a broader approach and when it might chose a more minimalist approach.

The argument for a microfinance-plus approach

A lack of access to credit could be addressed by either removing barriers to the provision of credit or by subsidizing access to credit. The first approach corresponds to a market-failure explanation of financial exclusion (defined as the non-existence of markets due to information asymmetries, non-competitive markets and principal-agent problems), while the second corresponds to a positive externalities theory of financial inclusion, as explained below. Both approaches can be used to justify microfinance-plus approaches. Let us start with the market failure justification.

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8 "Balancing Social Performance with Financial Growth," ESAF Publication, found at http://emfil.org/spm.html.

Market Failure and Microfinance

Many researchers have pointed out the impact of adverse selection and moral hazard on the provision of credit to asset-poor borrowers. [9] However, through the use of group-based techniques and other strategies, MFIs have figured out how to costs due to information asymmetry. Forbes (April 16, 2010)[10] notes that (Muhammad) “Yunus built Grameen upon a self-sustainable model of micro loan lending that targets the Bangladeshi poor (particularly women) so they can acquire the necessary capital to start up small businesses, employ their peers in jobs, and ultimately pay back the loans.” CK Prahalad, in “The Fortune at the Bottom of the Pyramid” made a similar argument that sustainable markets can be created to sell tangible consumer products in small quantities to the poor. In other words, NGOs and for-profit MFIs have creatively reduced the incidence of market failure. Still, there are many shortcomings in the operations of credit markets, particularly those based on joint-liability groups, and not all who might benefit from financial services have obtained access to them.

Amin et al. (2003) find no evidence that the microcredit provided by the three programs in their study, Grameen Bank, Bangladesh Rural Advancement Committee (BRAC) and Association for Social Advancement (ASA) – the largest microcredit providers in Bangladesh, and among the largest in the world – reach the households most in need of assistance, viz. the vulnerable poor. As they note, the vulnerable poor in the areas that they examine are hit hard by idiosyncratic shocks, which microcredit agencies are not able to ameliorate According to them, the vulnerable poor typically are not served by microcredit agencies; this implies the possibility of better targeting of such families by existing MFIs. However, this may not be feasible particularly where MFIs hew to their own sustainability and profit-generating goals. This suggests that the issue of market failure is still relevant. In addition to moral hazard and adverse selection, another major obstacle to the development of markets for micro-services in financial markets has been the issue of small transaction size. Although new technology, such as mobile banking has been used particularly in East Africa to address the uneconomically small scale of microloans and microsavings, this is still a problem as underscored by the unprofitability of most MFIs.[11] It is important to keep in mind that microloans are used for two purposes – one, consumption smoothing and two, income generation. We will not have much to say about market failure and consumption-smoothing loans. However, we argue below that the unprofitability of microloans for income-generation purposes could, at least in some places, be addressed through the provision of business training.

9 See Chapters 4 and 5 in Armendariz and Morduch (2010).

10 http://www.forbes.com/sites/face-to-face/2010/04/16/muhammad-yunus-on-microfinance/

11 See Chapter 10 in Armendariz and Morduch (2010).

The Argument for Business Training

The standard arguments for market failure in the provision of financial services involve moral hazard in the choice of investment projects after the loan is made and adverse selection in terms of the quality of the borrowers before the loan is made. However, there is a much more important factor that interferes with the efficient provision of microfinance. This is the fact that bottom-of-the-pyramid micro-entrepreneurs need more than financial credit to operate businesses that are profitable enough to generate sufficient value-addition to pay off the loans – they also need business skills. Even if they have access to credit to start microenterprises, they often do not have easy access to other inputs, such as accounting and marketing skills, which are necessary to make a business successful. If asset-poor individuals have difficulty raising financial capital to start businesses, they will certainly find it even more difficult to raise funds to obtain business training. The same issue of moral hazard operates even more viciously in the market for business education. In fact a certain amount of savvy is needed even to evaluate the terms of microloans themselves; lacking this, borrowers are often subjected to manipulation by much more knowledgeable and resourceful purveyors of credit, which only leads to increased indebtedness.

It is not necessary that business training be provided to all microfinance clients. However, at some point, without adequate training, existing businesses cannot be efficiently scaled up. If skills provision is built into the microfinance program, it may be possible to make small loans initially at a lower rate of interest to be then followed by larger loans accompanied by the provision of business skills needed to run larger and more efficient business. These follow-up loans could have higher interest rates to compensate lenders for losses on the earlier smaller loans. Relationship lending could keep the borrower tied to the lender as the business grows. Alternatively, the lender may use some kind of quasi-equity compensation scheme similar to venture capital. The criticism that MFIs end up making loans to businesses that are either not profitable or that cannot grow or be scaled up is reflected in the work of Roodman (2012) and Bateman (2010). For example, Bateman (2010, p. 42) points out that microfinance through its provision of credit for micro-enterprises often condemns its female clients to low-skilled and unskilled and hence low-return businesses. The problem is exacerbated by the "success" of these MFIs which provide microcredit to many clients in a small geographical area, where all of these clients have minimal skills and end up competing with each other – to their mutual detriment – in the provision of similar goods and services, these being the only easy-entry occupations for which they are qualified.

In contrast, Brook et al. (2008), in their study of SHG-led MFIs in Karnataka, India, note that "the SHG model of community mobilization and the increased availability of microfinance had an effect upon livelihood strategies for the majority of members, with 67 per cent reporting an additional occupation, the expansion of an existing enterprise or a move to a new job." The identification of such alternative enterprises, according to Brook et al. (2008) was possible mainly through the involvement of NGOs (i.e. organizations that were not pure microfinance institutions). For example, they report that "(i)n response to a marketing and microenterprise development programme in Mugad village, 31 women set up a soap powder-making business, at one point selling more than 250 kilogrammes per month." This is the sort of business enterprise that is unlikely to succeed if the MFI client does not get business advice along with microcredit.

In fact, bundled microcredit and training has long been deemed de rigueur in the US, yet eschewed in developing countries. Tellingly, Schreiner and Morduch (2001) note:

The difficulty of microfinance in the United States has contributed to a focus on training that is in sharp contrast to experiences in the developing world. The focus on training fits with the Third Way vision to equip the poor to compete in the marketplace. The developing world's microfinance experiences, however, have few lessons to offer in the area of training. Most large, well-known, programs in developing countries make loans but do not offer training, but most U.S. programs offer only training or both training and loans.

Such a bundled approach, I believe, is relevant for MFIs in developing countries, as well.

The Argument for Integrated Microfinance:

A similar argument can also be made to justify combining financial services with the provision of broader human-capital enhancing services that could help clients in paying for insurance products, in the timely repayment of microcredit or in efficient utilization of savings schemes. If there is market failure in the supply and demand of broader services such as health and education, it may make sense to bundle them with financial services, given that relatively efficient microcredit delivery schemes have already been developed. In fact, the provision of financial services by themselves may not achieve the desired objective of poverty alleviation. MFI clients, as a class, tend to belong to the bottom of the pyramid and, as such, face particular shortcomings in access to health, education, shelter, et cetera, in addition to credit. In many third-world countries especially, these needs are often intrinsically linked; for example, low status may be the root cause of all of these needs. If so, it may arguably be insufficient, inefficient and sometimes even counterproductive to address these issues separately.[12] For example, if the same population is need of access to financial services, on the one hand, as well as better sanitation, better health services, better education for children, better financial education for adults and other such intangible goods, on the other, a single organization may be able to efficiently provide both types of services simultaneously.

These arguments are consistent with the stated goal of many microfinance NGOs viz. to facilitate the movement of the poor out of poverty. Lack of proper sanitation, medical care and health services result in recurring and sometimes catastrophic levels of medical expenses that can lead to destitution caused by the need for emergency borrowings in these situations (see, for example, the narratives in Collins, Morduch et al; 2009). Lack of marketable skills also makes it difficult for adults to obtain well compensated jobs; and lack of proper education ensures that children will remain in poorly paid occupations over their adult lives. These sorts of stories are even more likely in today's technologically-advanced world – even in developing economies (see e.g. Ray, 1998, Chapter 7).

12 See, for example, Chandni (2004) on the value of integrating health service provision along with microcredit. Besides arguing that "Better health can also be a *complementary* strategy in poverty alleviation," she also argues that addressing client needs can reduce loan defaults.

Microfinance and Positive Externalities

In addition to a market-failure argument, there may also be a positive externalities argument for integrated microfinance. This approach says that there are benefits to society from the broad provision of social and financial services that go beyond the benefits to the individual. Islam (2009) makes such a point. His argument, paraphrased a bit, consists of two parts: one, the poor avoid high-return investments because the cost of a negative shock pushes them deeper into poverty; two, such behavior is welfare-reducing not only for the individuals involved, but for society in general. If this is true, then provision of credit by itself is not sufficient because even with the provision of credit, the poor will avoid high-return (high-risk) activities and underutilize their skills – unless the expected return is high enough that the likelihood of being plunged deeper into poverty is low. For this argument to work, the non-financial services provided to microfinance clients need to be of specific kinds, as explained below.

Negative shocks, such as illness, often create a poverty trap because the poor do not have enough resources to obtain the right kind of medical care; what care is available is insufficient and, often, overly expensive. Any assets they might have accumulated are wiped out. Thus, provision of medical care is a service that is complementary to the provision of microcredit. Collins et al. (2009) tell the story of Feizal, a poor salesman in Uttar Pradesh, who used to bicycle from village to village selling pots. Although his family had accumulated some savings and they were doing well, one day he fell and broke his leg; his family took him to a traditional doctor, but his leg got worse. Ultimately, they were forced to spend two-thirds of a year's income on hospital services. Feizal, fortunately, had family to rely on; else, his entire savings having been wiped out, his family would have become destitute. Feizal found himself in this situation because he invested in a bicycle and decided to expand the market for his pots. While this added to his income and provided the residents of many villages access to his pots, it also exposed him to additional risks stemming from travels away from home. A risk-averse Feizal may simply have stayed in his village and remained underemployed in traditional agriculture. As discussed above, the reason this argument works – at least partly – is that the market for health services is inefficient. The two arguments, i.e. market failure and positive externalities, thus, are somewhat intertwined.

A human being represents untapped earnings potential, not only for him/herself but for society at large. If this human being is not provided with investment capital, this earnings potential may remain untapped; and even if investment capital is provided, the full earnings potential may not be realized if the existing human capital is not developed. Provision of resources for development of this human capital through business training, health and education thus makes everybody better off. Many integrated MFIs also justify their activities by invoking broader social ideals such as the right of every human being to certain freedoms, such as freedom from hunger, violence, oppression and injustice (http://www.un.org/millennium/declaration/ares552e.htm). As mentioned above, low social status keeps individuals and groups poor and oppressed; the invocation of social goals allows MFIs to argue that freedom from hunger is best addressed through the simultaneous provision of human capital (health and education) and financial capital.

Even if we cannot make an argument to link the supply of financial services with the provision of capacity building services and social services, why should an MFI not also offer these other services? Even if combining these functions is not necessary, is there a problem in

doing so? An argument can be made that, in fact, if it is not necessary, then there should _not_ be such a linkage. The reason is that most MFIs are inefficient.[13] As such it is better that they should be focused rather than try to do more than one job. Even for an efficient MFI, it makes sense to remain focused on simply serving the client's financial needs. This is the approach that KGFS, a Tamilnadu-based MFI, takes. According to Ananth et al. (2012), a core operating principle of KGFS is to focus solely on client wealth management. Each MFI, of course, needs to undertake a SWOT analysis of its capabilities and its clients' needs and operate in accordance with its findings. Accordingly, while one may accept KGFS's focused approach for a relatively developed state like Tamilnadu, this may not work in all environments; KGFS's recent forays into Uttarakhand and Orissa, relatively less developed areas of India, may require a different strategy. Consequently, a more integrated MFI approach may be desirable under certain circumstances, as argued above.

Trends towards microfinance-plus

There is at least anecdotal evidence that many MFIs are taking a broad approach to microfinance, some restricting themselves to providing business skills while others go further. A Mumbai MFI, Swadhaar FinAccess counts as one of its three objectives, "(t)o educate the economically disadvantaged people in urban/semi-urban areas to make informed decisions pertaining to their finances." SEWA (Self-employed Women's Association), based in Ahmedabad, has long directed itself to a holistic uplifting of women's lives. Today, training is a key component of what SEWA does.[14] SEWA training programs provide livelihood and skills training, leadership training, research training as well as training in gender issues. SEWA also has sister organizations that promote cooperatives, provide marketing support to SEWA clients, and help women workers in the informal sector to organize. Moving to integrated microfinance providers, we note two organizations – REAP and SPARC. REAP is an NGO in Mumbai that works through SHGs and, as part of its activities, provides microcredit, as well; however its primary focus is the promotion of literacy for slum children. Since serving slum children cannot be divorced from improving their family environment, REAP also works with the mothers of these children. These mothers are empowered by the creation of SHGs that promote, inter alia, small savings, internal loaning, and micro-credit from banks. While the provision of financial services turns out to be a by-product of a focus on child welfare in the case of REAP, it's the other way round with Sparc (Society for the Promotion of Area Resource Centers). Sparc on its website notes: "As federation members say … "when savings are strong, the whole federation is strong." Upon entering a new community, therefore, the first thing the Alliance does is form saving and

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13 See Armendariz and Morduch (2010, Chapter 10). See also Bos and Millone (2013) and Lebovics et al. (2014) for a discussion of MFI efficiency and social sustainability. Interestingly enough, larger MFIs are not necessarily more efficient, according to Bos and Millone (2013). See also Brau and Woller (2004) for a fairly comprehensive review of the microfinance literature until that date. Note, however, the lack of much discussion of the relationship between social service provision and microfinance; in fact, in the literature, the term "social performance" is used to refer to the breadth of client coverage – not social services. The exception is Smith (2002), who discusses the provision of health education to MFI clients, though not health services. According to Roberts (2013), even for-profit orientation "does not contribute to greater profitability and therefore sustainability because the stronger profit orientation is also associated with higher MFI costs."

14 http://www.sewaacademy.org/training.html

credit groups." The goal of Sparc, however, is not simply to provide financial services. In collaboration with the National Slum Dwellers Federation (NSDF) and Mahila Milan (a women's organization), Sparc organizes "the urban poor to come together, articulate their concerns and collectively produce solutions to the problems they face." Two of the most important problems that Sparc works on are housing and sanitation.

In the rest of this paper, I will look the operations of ESAF, the MFI referred to, earlier. My goal will be to try and understand why ESAF has taken a path different from the more minimalist approach of most Indian MFIs and whether its broader focus can be justified along the lines suggested here.

ESAF: Description

Organization

ESAF has developed organizationally since its initial founding in 1992. In the beginning, ESAF was set up as a charitable society (a non-profit non-governmental organization) registered under the Societies Registration Act of 1860 and all its microfinance activities were conducted under this organizational form. However, with the increase in governmental regulation, the increased sophistication of the microfinance industry, and the need to have access to an inexpensive source of capital, a host of other organizations were created, some as trusts under the Indian Trusts Act of 1882 and others as private limited companies.[15] ESAF, therefore, continues to be a charitable society and besides conducting service activities permitted to a charitable society, also acts as an umbrella organization. ESAF's microfinance activities are conducted under the banner of EMFIL, a non-banking finance company. Loans are generally provided to individuals through Grameen-type joint-liability groups (JLG). However, all borrowers belong to self-help groups (SHG) called Sangams. A group of 50-80 Sangams forms a cluster; four to five clusters together have a Branch Advisory Committee, whose members represent the Sangams. The Sangams also send representatives to a Representative General Body, which is governed through a state-level Apex Sangam Federation, which has a working committee of nine members, some elected and some nominated. There are state level federations in the states of Maharashtra, Kerala and Tamil Nadu, though ESAF also operates in Jharkhand, Chhattisgarh and Madhya Pradesh, West Bengal, Bihar and Puducherry. While there is a clear organizational structure to ESAF's activities so that governmental and legal requirements are properly adhered to, in practice the operation of the different units is seamless. Furthermore, the Sangam Federation owns a majority of the shares of EMFIL, thus providing an additional interlock between the different entities.[16]

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15 For example, originally, ESAF accepted savings/deposits from its members, which was not permitted under Section 45S of the RBI Act, 1934; hence it had to turn to new sources of funds. ESAF was originally a charitable society; but such an organization is required to be a non-profit; this restriction does not apply to some of the new units, such as EMFIL, which makes it easier to raise funds. EMFIL as an NBFC-MFI is also eligible for priority-sector lending funds, as per a May 2011 Reserve Bank of India (RBI) directive.

16 In 2013, the Federation was folded into a credit cooperative society, ESAF Swasraya Multi-State Credit Cooperative Society (ESCCO). ESCCO was incorporated in 2011 under the Multi-State Co-operative Societies Act, 2002 and is licensed to operate in Kerala, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Maharashtra, Rajasthan,

We first provide a brief summary of ESAF's activities before looking at them in more detail. Its microfinance arm, EMFIL, has developed a broad range of loan products such as income generation loans, general loans for household consumption, short term loans for traders, house repair or construction loan and also environmental loans (for sanitation, water or solar energy light). Beyond micro credits, ESAF provides a combination of micro financial and non-financial products to the bottom of the pyramid, with a focus on micro insurance, business development services, training, research and advocacy, consultancy, networking, community health, education, disaster management, rehabilitation and natural resource management.[17]

ESAF and Business Services

Business education, sometimes called capacity building, is provided through several ESAF organizations, one of them being ESPCL (ESAF Swasraya Producers Company Limited). ESPCL is a producer company registered in 2005 under section 581C (1) of the Companies Act 1956,[18] and operates more or less like a co-operative. The primary objective in starting ESPCL was to support marginal producers in all phases of production, starting from raw material procurement to final product sale, ensuring that they were able to use the market power provided by the size of ESPCL as opposed to transacting at their individual much smaller scales. An additional function of ESPCL is to help upgrade the skills of its member artisans through training and entrepreneurship development programs. The entrepreneurship development programs, which are primarily in Jharkhand aim at providing training and support to locals to start businesses using locally available materials, such as bamboo. Just as in the Sangams, clusters of artisans have been created from which individuals are selected to train as master artisans, who in turn train the remaining cluster members. The products manufactured by these cluster enterprises are bought by ESAF, finished in incubation centers and then resold at different locations in India and abroad. At this point, successful local entrepreneurs are ready to be mainstreamed and provided microloans under ESAF's standard microfinance loan program.

ESPCL also provides marketing support for handicraft manufacturers in its Prerana program. More generally, it extends support to micro-entrepreneurs through branding, value addition and marketing. It helps in production, processing and development in the areas of herbal products, handicrafts and meat and dairy products. ESAF Retail Pvt. Ltd. also participates in this activity and runs a chain of fair price retail shops (ESAF Swasraya Bazar) where Sangam members can sell food products such as snacks, spices, rice powder etc. ESAF Swasraya is also used as a conduit to distribute products such as solar lamps to Sangam members.

Haryana and Delhi. According to information supplied to me by ESAF, as of January 2015, ESCCO owned 60.82% of the equity in EMFIL.

17 From "ESAF Microfinance: Balancing Social Performance with Financial Growth," a June 2013 document obtained from ESAF.

18 A producer company is a combination of ten or more individuals or producer institutions, engaged in an activity related to primary produce, such as agriculture or animal husbandry.

ESAF and Human Services Development

ESAF itself, under its *human resources development* rubric runs childcare and nurturing programs for the young. It also provides career guidance and personality development training programs for high school students and older youth. Under the Kids4Kids program, it operates child care centers in Jharkand state in North India and runs tuition centers and secondary schools as well. ESAF also runs some 15 Child Care Centres (CCCs) in Jharkhand for tribal children who don't have access to formal schooling. Around 1500 students are currently studying in these CCCs. Construction of a high school is also in the works, so that the CCC graduates can go on to high school. Under this program, the children are also given nutritious meals, books and uniforms. Apart from this there are career guidance classes, tuition classes and value-based education for children of Sangam members.

One of the key functions of EMFIL, in general, is to provide leadership training to Sangam Cluster leaders. Similarly, EMFIL also contracts with the Sangam Federation to provide skill training, financial literacy and family-enrichment training to Sangam members. These functions are also undertaken in specific cases by ESAF itself. Thus, the Nirmal Jeevan Dhara project implemented by ESAF to promote sustainable drinking water in Nagpur and Bhandara districts of Maharashtra also includes capacity development, technological training, promotion of good health and hygiene practices and school education. This program also provides leadership training to Sangam leaders. Finally, ESAF Health Care Services, an ESAF private limited company, operates a School of Nursing in Palakkad, Kerala, which provides a General Nursing and Midwifery (GNM) course.

ESAF and Health & Shelter

ESAF has set up a private limited company called ESAF Homes and Infrastructure, which deals with the problem of housing in rural areas, and particularly the availability of affordable housing. The main objects of the company are to engage in the business of building affordable homes and commercial complexes and to promote or set up infrastructure facilities in rural areas. Actual house construction has not yet started; however more than 100 bio-gas plants have been successfully placed at the household level for efficient garbage disposal. EMFIL under its Griha Jyoti program also provides loans for house construction and house repair.

ESAF Health Care Services Private Limited provides accessible and affordable housing to the rural and semi-urban poor. It operates two hospitals, one in Thachampara, Palakkad district (which it took over in 2007) and one in Kozhinjampara, Palakkad. Deenabandhu Hospital in Thachampara is a 100-bed multi-specialty hospital with X-Ray, ECG, automated laboratory and 24-hour ambulance services. Thachampara is in a rural area and serves tribal and non-tribal populations. Unity Hospital in Kozhinjampara is a 50-bed hospital, which was taken over in April 2008 and which is also to be developed into a multi-specialty hospital. ESAF Health Care manages three primary health care centers where Sangam members get special discounts in consultation, lab fee and medicines. Sangam members who are covered under the ESAF Health Plus Insurance Scheme get free treatment in ESAF hospitals. ESAF is also planning to take over a hospital in Dumka, Jharkand.

ESAF and Advocacy

ESAF has embarked on a Livable Cities program, in partnership with HealthBridge, Canada, which it has implemented in Nagpur, Bangalore and Thrissur. The objective of the program is to explore possibilities for increased public spaces and improved pedestrian facilities through research and advocacy with the local municipalities. For example, ESAF has conducted a study on the feasibility of developing Commercial Street in the central business district of Bangalore as a pedestrians-only street. In Nagpur, ESAF has developed a park for children in the Karnal Bag area, as well as operating a summer camp for children. It has also conducted a walkability survey in Thrissur.

While ESAF currently operates in a multitude of states, it started out in the southern Indian state of Kerala and it is only relatively recently that it has moved out of Kerala. In the next section, we will look at ESAF's operations in Kerala and the justification for its integrated approach to microfinance.

ESAF: Justification for microfinance-plus?

We see from the above description that ESAF is clearly an integrated MFI, as we defined it in the introduction. But was ESAF's broad approach to microfinance in Kerala justified at the time that it started in the early nineties? On the face of it, it would seem not, since Kerala according to many indicators has ranked high according to many social indicators. For example, education is a major activity for ESAF; yet, according to Dreze and Sen (1997, Table 3.3, page 47), Kerala ranked highest amongst all the states in literacy in 1991. In the 7-plus age group, female literacy was 86% and male literacy was 94%, compared to the next most literate state, Himachal Pradesh, which had comparable numbers of 52% and 75% respectively. In the rural 10-14 age cohort (data for 1987-88), the numbers were 98% for both males and females in Kerala, compared to 81% and 95% for Himachal Pradesh. In terms of social services, as well, Kerala was doing quite well, compared to the rest of India. How then do we make sense of ESAF's decision to make education a big part of their mission?

Education in Kerala

As noted, around the time that ESAF was established, Kerala seemed to be doing quite well in terms of literacy. However we will see that the situation was not so simple; in fact, Kerala's educational situation may even have contributed to unemployment. Once we go beyond basic literacy, Kerala was no longer a leader; Kerala, in fact, lagged in the area of higher education. In fact, Tilak (2001) argues that the reason for Kerala's lagging behind in economic growth was due to the neglect of higher education. He also presents evidence that government spending on higher education was low, compared to other states. As Tilak notes, government expenditure had been replaced by the sprouting of parallel colleges, which do not seem to have satisfied the educational needs of the marketplace. As he says, "(t)his phenomenon of parallel colleges is helped by the fact that students can appear for any examination as a private candidate, without ever going to any formal recognised college. These are, in fact, tutorial institutions offering tuition to students to prepare them for examinations as 'private' candidates." Mathew (1995) notes, as well, the alarming proportions of the educated employment problem, which he attributes to the opening of too many arts and science colleges (read *institutions that do not prepare*

students for the job market).[19] Of course, private colleges are likely to have been simply satisfying market demand for college seats; still, the supply of graduates does not seem to have matched the availability of jobs, leading to unemployment. Unemployment in Kerala in the nineties was quite high and had been high for quite a while. According to the Kerala State Development Report (p. 99, Table 3.5), the overall unemployment rate in Kerala was 19.8% in 1987-88 and as high as 30.6% for women, compared with 5.5% and 8% for all of India. The numbers for 1993-94 were 17.1% and 6.2% (4.2% and 4.7% for all of India). In 1999-2000, the numbers were somewhat better, but continued to be bad, relative to the rest of India (11.4% and 21.5%, compared to 2.7% and 2.4 for all India).

The adverse relationship between education and employment in that period was also exacerbated by migration. Zachariah and Irudaya Rajan (2009) study the relationship between migration and unemployment in Kerala. They note that emigration led, unexpectedly, to higher unemployment in Kerala. The direct effect in 2004 (a qualitatively similar result was observed in 1999) was a reduction of unemployment from 21.4% to 19.2%; however, the indirect effects led to an increase in unemployment. They mention two factors. One, many governments in the Gulf region, a primary emigration destination, require a secondary level of education from intending migrants. As a result, many Kerala youths sought to secure a secondary level education certificate. However, since migration was by no means assured, most of those who studied for and acquired a secondary level education certificate were not able to migrate. To some extent, this is still true; these people are no longer content to work in manual or agricultural jobs and hence remain unemployed.[20] The second effect is that of the cost of education. "Without some source of funds, many Kerala youths would not be able to pursue higher education. The required funds primarily came from emigrants' remittances. In this sense, migration fuelled the demand for higher education, supplied the means to meet the demand and indirectly contributed to Kerala's unemployment problem" (Zachariah and Irudaya Rajan, p. 127). This evidence suggests that Kerala graduates have not been properly prepared to take up productive employment.

A second reason that is often mooted for the high unemployment rate is that college graduates are not interested in manual labor and prefer white collar jobs. However, Mathew (1995) believes that "at least as far Kerala is concerned, what is often mistaken for a bias in favor of white collar occupations is in fact a preference for salaried employment over self-employment." On the other hand, the phenomenon of in-migration, i.e. migration of Indians from other states to Kerala to take up manual jobs, co-existing with high levels of unemployment among the educated, suggests that the preference for white-collar jobs is also part of the reason for a high educated unemployment rate. Either way, Keralites seem not to have been educationally prepared for available jobs and even less for self-employment, indicating a rationale for the provision of business training along with microcredit, which is the approach that Paul Thomas took with ESAF.

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19 While the phenomenon of parallel colleges is no longer very relevant, following the government's permission for the establishment of private colleges, the quality of education seems clearly not to have improved. In a Times of India article in 2002, PK Surendran notes that "the state had on its live employment register, 41.85 lakh job seekers in 2001. Of this, only 9.5 lakh were below SSC (the equivalent of 10th grade) and the remainder had higher education."

20 This is also consistent with information given by George Thomas and Paul Thomas in private interviews.

Education and the Kerala Economy

A third reason for linking business training to microcredit is that the nature of the Kerala economy was (and still is) different from that of many other states. Whereas there is still scope for small businesses in other states, the small business sector in the form of petty trade, services and petty manufacturing is saturated. As a result, providing small business loans without providing additional business training is unlikely to aid in income generation. What it is likely to do, rather, is to intensify competition in this market and depress prices and profits. This is pointed out by Emil Mathew (2006):

> Members were asked to mention the reasons behind higher allocation of loans for productive purposes. Some SHG members revealed that they had undertaken certain IGAs[21] such as food processing, tailoring, umbrella making, and teashops for a short duration of less than 4 months. They were finding it difficult to sell their new products in the context of stiff competition from the already established products in the market, lack of economies of scale due to small scale of production and the low quality of the products manufactured at the local level.

This point is also made, in a general context by Bateman (2010) in his book, *Why Doesn't Microfinance Work?* In this book, he notes that in providing microfinance, many market-driven MFIs ignore the minimum efficient scale of enterprises, leading to a high failure rate – not necessarily of the MFIs who may experience high repayment rates from excessive borrowing from Peter to pay Paul and by calling upon family savings – but of the micro-businesses, themselves. He points out that in many of the countries served by microfinance, local markets are saturated with simple products and services that are produced in microenterprises and consumed locally. By adding to local capacity in the provision of simple products and services, MFI activities lead to a fall in local prices causing both clients and non-clients to suffer. As a further consequence, turnover falls, and then margins, profits and wages fall too. He argues that it is necessary to provide longer-term and larger loans so that these entrepreneurs can produce for the larger national or global market, rather than the local market. Paul Thomas realized the same thing. Since his clients lacked business skills, he realized that he needed to provide business development services in addition to business credit. By enabling his clients to join together in producer and marketing cooperatives, he achieved the same result as Bateman's suggested solution of larger and longer loans, would have. This later solution, though, was not an option for him, given his lack of capital.

Suggestive evidence in support of this idea regarding the industry structure of the Kerala economy in 1999-2000 is provided in Table 1 below. The year 1999-2000 is chosen because it was the closest year available from the 2012-13 Handbook of Statistics on the Indian Economy to when ESAF was established. Overall, it can be seen that the Kerala economy depends less on agriculture and industry compared to the national economy and relies more on services. The

21 IGA refers to income-generating activities. SHGs are self-help groups, which often work as conduits for microloans.

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figure for Kerala is 68.3%, while that for All-India is 56.4%, a difference of twelve percentage points; furthermore, eight of these percentage points is accounted for by trade, hotels and restaurants. The figures for All-India were computed by adding the numbers provided in Table 6 for all states. While this table does not provide data on the size distribution of firms, it does suggest that a disproportionate amount (almost a quarter) of Kerala's domestic product came from the services industry, comprising trade restaurants and hotels. It would not at all be surprising, given the evidence from Emil Mathew, that these are small enterprises.

Comparable figures have also been computed for the year 2011-2012. Once again, we note that there is a twelve percentage point difference between the Kerala and the All-India numbers for the Services Total figure; however, for this period, we note that the contribution of trade, hotels and restaurant to this divergence is only about four percentage points; so if the assumptions that we made earlier are still valid, there has been an improvement. On the other hand, if we look at the proportion of Unregistered Manufacturing to Total Industry, this ratio is 34% for Kerala in 1999-2000, compared to 27.3% for All-India; for the later period, the comparable ratios are 47.75% and 25.34%. In other words, assuming that unregistered manufacturing refers to more informal and smaller units, Kerala manufacturing is much more characterized by such units than the rest of India; and this characteristic has only intensified with time. The nature of the Kerala economy, as described above, implies that it was important for ESAF to go beyond simply providing credit and leaving their borrowers to make their own business decisions in the prevailing economy, as, for example, KGFS does in Tamil Nadu. It made sense for ESAF to help their borrowers with business development services and the creation of producer and retailer cooperatives. We now look briefly at the decision of ESAF to involve itself in the provision of health services.

Health in Kerala

As discussed above in section III, ESAF has extended itself beyond business development services. Among the areas that it has entered are general education (particularly for children), health, shelter and civic advocacy. While each of these areas need to be investigated using the same approach applied to business development services, we will restrict ourselves to briefly looking at health in Kerala and whether ESAF's foray into the provision of health services can be justified as an appropriate ancillary to the provision of microfinance services.

Kerala has had, since the beginning of the twentieth century, better health conditions than the rest of India. Singh (2010, citing Ramachandran, 1998) notes that Kerala had lower infant mortality rates and higher life expectancy rates than the rest of India. Thus in 1990-2, Kerala men could expect to live about ten years longer than men in the rest of India; for women the difference was closer to fifteen years. Kerala Perspective Plan (Vision 2030) documents that Kerala has consistently, from 1999 to 2012, spent a larger percentage of its budget on health, compared to the three other southern states; actual expenditures per capita were also higher in Kerala (Rs. 278 versus Rs. 242 for all-India). The same document notes that life expectancy in Kerala in 2012 was nine years higher than that of the rest of India, while the infant and maternal mortality rates were substantially lower. If this is so, then there does not seem any case for ESAF to engage in the provision of health service at all, let alone as a necessary corollary to its microfinance program

Table 1: Percentage of State Domestic Product by Industry for Kerala versus all-India

Source: Computed by the author using data obtained from Handbook of Statistics on the Indian Economy, 2012-2013, Table 6: "Components Of Net State Domestic Product At Factor Cost By Industry Of Origin"

		Kerala	All-India	Kerala	All-India
	Year	1999-2000	1999-2000	2011-2012	2011-2012
Agriculture and Allied Activities	Agriculture	17.06%	24.48%	12.63%	17.22%
	Forestry & Logging	1.93%	1.11%	1.45%	1.94%
	Fishing	2.24%	1.10%	1.18%	0.79%
	Agriculture, Forestry & Fishing Total	21.23%	26.69%	15.26%	19.94%
Industry	Mining & Quarrying	0.42%	1.62%	0.66%	1.80%
	Manufacturing - Registered	5.45%	8.89%	3.03%	8.66%
	Manufacturing - Unregistered	3.61%	4.62%	3.92%	4.05%
	Manufacturing	9.06%	13.51%	6.95%	12.72%
	Electricity, Gas & Water Supply	1.02%	1.78%	0.82%	1.06%
	Industry Total	10.50%	16.91%	8.21%	15.98%
Services	Construction	10.38%	6.60%	14.65%	9.39%
	Transport, Storage & Communication	7.84%	6.21%	9.48%	6.79%
	Trade, Hotels & Restaurant	23.74%	15.07%	20.58%	16.47%
	Banking & Insurance	5.06%	6.71%	5.79%	6.68%
	Real Estate, Ownership of Dwellings & Business Services	6.64%	6.96%	11.71%	10.69%
	Public Admn., Defence & Quasi-Govt. Bodies	4.66%	4.99%	4.60%	4.31%
	Other Services	9.94%	9.88%	9.72%	9.75%
	Services Total	68.27%	56.41%	76.53%	64.08%

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However, there is some evidence that Kerala has a higher incidence of lifestyle diseases, such as diabetes, asthma and thyroid diseases, compared to other Indian states (Vision 2030, Table 4.5). Mental illness seems to be more prevalent in Kerala than in any other Indian state, according to the 2001 census. The incidence of alcoholism is also higher than in other states. Finally, Kerala is ahead of the rest of India in terms of demographic transition and, hence, has more age-related diseases than the rest of India. Concomitantly, in spite of a higher level of public funding, private expenditure on health per capita also seems to be higher in Kerala, about double the all-India amount in 2004-5. In fact, Ghosh (2011) notes that out-of-pocket payments for health care as a percentage of household consumption expenditure were about 10.4% for Kerala in 2004-5, while the average for India was 5.51%! This suggests that even if Kerala ranks higher than other Indian states in terms of some basic health measures, the demand for health services (either because of actual higher incidence of illness or higher health expectations) is much higher in Kerala. And since much of this expenditure is out-of-pocket, as opposed to state-financed, unexpected catastrophic health events can push families into poverty. Finally, even though Kerala, as a whole, might not be in particular bad shape from a health point of view, ESAF Health Care Services caters primarily to the rural and semi-urban poor, including some tribal populations. For these populations, access to health services might very well be necessary to prevent them from plunging back into poverty. Furthermore, some of these diseases are communicable (tuberculosis, pneumonia, leprosy and HIV/AIDS). Thus, there are both market failure and public good elements to ESAF's provision of health care services. To this extent, provision of medical services might, arguably, be linked to the efficient operation of a microfinance loan program.

Kerala and integrated microfinance:

We have seen two of the special aspects of Kerala that has made ESAF's approach relatively successful in Kerala. One, the high level of education, but nevertheless one inappropriate for the economic environment of Kerala, made the simple provision of credit insufficient for the creation of employment opportunities. Two, because of the flow of remittances from the Gulf, funds were available for investment in human capital; at the same time, the Kerala culture was such as to prize higher education, or at least education unrelated to employment needs. Except for some communities like the Syrian Christian community, business was not a traditional occupation; most educated youths preferred to wait even three to six years to get a job, preferably a Government job.[22] The creation of a producer cooperative structure in the form of ESAF Retail Pvt. Ltd. and ESAF Swasraya Bazar were therefore probably very useful for ESAF's borrowers in using its loans to start and run successful businesses.[23]

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22 "The educated fared the worst in this situation, with young middle class degree-holders waiting upwards of six years before finding a job (Government of India 2008, 99). In 1975, the wait was closer to three years." Quote from Bennett (2014)

23 See ESAF and Business Services, above.

The successful formation of cooperatives in Kerala may also owe something to two aspects, peculiar to Kerala – one, the high political literacy of even less-educated Keralites, and the development of community organizations, such as the NSS (Nair Service Society, formed in 1914), the SNDP (Shree Narayana Dharma Paripalana Yogam, formed by the Ezhavas in 1903), the Muslim League (formed in 1937), the Catholic Church. Such political awareness and community feeling were probably a factor in the success of Kerala co-operatives, while the co-operative movement as a whole has not done well in other parts of India. Trilochan Sastry, in an unpublished paper on factors affecting the success of cooperatives, notes the importance of institutionalizing the cooperative, i.e. creating a feeling in the membership that they own the organization. On the other hand, it must also be noted that while community-based organizations have a natural basis for their existence and for the allegiance of their members not automatically present in cooperatives, there have been many organizations in Kerala with cross-community membership, based more on social class and shared occupation. Examples are the Dinesh Beedi Workers' Cooperative in Kannur, toddy tappers in Thrissur and agricultural laborers in Kuttanad and Palakkad (Franke and Chasin, 2000).

Dreze and Sen (1995) also point out that the political climate in Kerala until the 1990s tended to encourage economic policies that were extremely hostile to the market mechanism (p. 198). Also, during this period, the Central Government was promoting import-substitution policies and emphasized industrialization, which did not benefit Kerala, since it does not have an abundance of raw materials; in fact, its strength, historically, has been in its ports and in external trade, something which was underutilized until the mid-1990s when the Indian economy was opened up. Both of these factors would have made it more difficult for the private sector to provide human development services, such as health and education. It was, therefore, necessary for NGOs like ESAF to provide these services, where the state did not provide them appropriately.

MFI Culture and Integrated Microfinance

In this article, we have tried to justify ESAF's integrated microfinance approach from an economic point of view. However, the personal element cannot be ignored entirely. In fact, it may very well be a religious impulse that pushed ESAF to add human development services to its roster of financial services. From his early years, ESAF founder Paul Thomas and his friends, George Thomas and Jacob, were members of the Union of Evangelical Students of India, a group begun in nearby Tamilnadu in 1954. One of the visitors who came to speak to the students was Dr. John Stott of Oxford. According to George Thomas: "John Stott said it's not enough simply to look at the spiritual aspects. According to him, Jesus's approach was integrated, spiritual and physical. When Jesus saw the hungry, he fed him, when he saw somebody that was ill, he hired him – in addition to the spiritual element." Hence, as Christians, as Indian citizens, it is incumbent upon us, said George, to participate in the physical uplift of poor Indians.[24] This message had a big impact on Paul and was a key motivator in his founding of ESAF. As such, even from the very beginning, Paul had a broad vision for his organization. In fact, ESAF, in the beginning, was not a pure microcredit program; rather it was a micro-enterprise development program. ESAF's services had three core components – business development services –

24 Personal interview with George Thomas on May 22, 2013.

marketing support, training etc., finance and insurance.[25] ESAF did not start as a minimalist MFI and it did not restrict itself to a minimalist agenda.

MFIs are not like business organizations. They have a social aspect to them and as such they attract individuals with humanitarian goals. The story of how Muhammad Yunus got interested in microfinance has been told over and over again.[26] As he describes it, in 1976, in the village of Jobra outside Chittagong, Bangladesh, he met a woman who had borrowed the equivalent of 7 US cents to buy bamboo, from which she made stools. She paid the moneylender 10 percent a week and was committed to selling the stools to the moneylender at a price that would never allow her to free herself from this grind. He realized that all that stood between her and a decent living was access to credit at a reasonable interest rate and started Grameen Bank with the goal of providing credit to individuals like that woman who were shut out of the credit market. One could ask why Yunus restricted himself to providing credit. In fact, around the same time that Yunus started Grameen Bank, there were several other organizations that were also providing microcredit, such as the Association for Social Advancement (ASA, 1978) and Bangladesh Rural Advancement Committee (BRAC, 1972). Why did these organizations adopt the minimalist model? Was this the right approach? There have been many studies of the impact of microfinance on poverty in Bangladesh without any clear result.[27]. Would the results have been different if the needs of the poor had been addressed in multiple ways? This question may be impossible to answer, and it is not my objective to answer it in this article, either. Similarly, in the case of Paul Thomas, as well, his personal history and the economic circumstances in the state of Kerala at the time that he decided to venture into microfinance all coalesced with the result of a multi-faceted, integrated MFI.

Conclusion

In this paper, I first examine justifications for a narrow approach to microcredit versus a broader microfinance-plus approach that includes human development services along with financial services. I suggest that such justifications would depend upon synergies between financial services and human development services based on market failure and public goods arguments. I then use this conceptual framework to examine some of the reasons why Evangelical Social Action Forum (ESAF), a Kerala-based MFI, chose to pursue a relatively maximalist approach to microfinance. I suggest that although the personal goals of the founder, Paul Thomas, and the social-welfare culture prevalent in ESAF were important, at least equally as important was the social, political and economic environment in which ESAF was founded and in which it operates. The educational system in Kerala at the time of ESAF's founding was not conducive to preparing

25 In fact, according to a document shared with me by Sandhya, ESAF Research Officer, the organization, in the initial years after its formation, also ran health camps, awareness programs and provided educational scholarships. According to the same document, "(t)he goal was to believe and strive to work with an integrated approach towards creating self-reliance among the underprivileged and marginalized people." In other words, creation of self-reliance was a primary goal, an indication of an early non-minimalist approach.

26 See, for example, Yunus (2010).

27 See Pitt and Khandker (1998), Morduch (1998), Morduch and Roodman (2009), Pitt (2012) and Roodman (2013).

entrepreneurs or to preparing employees for business organizations. Neither was the nature of the Kerala economy appropriate for an inundation of small entrepreneurs of the sort that Grameen was producing in Bangladesh. The confluence of these three factors – the educational system in Kerala, the nature of her economy and Paul Thomas's personal religious beliefs – led him to the microfinance-plus approach that ESAF has adopted. While it is difficult to generalize from one case to another, I would suggest that any MFI considering whether to go for a microfinance-plus operation should seriously consider whether it is justified from a market failure and/or public goods approach. If a convincing argument cannot be made for synergy between the provision of human development services and the provision of financial services, perhaps a limited, more focused microfinance institution is indicated.

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