

CHAPTER 3: DEMAND VS. SUPPLY

HOW BEST TO MATCH MICROFINANCE WITH STREET CHILDREN?

Key Points: Microfinance, a powerful tool aimed at delivering financial services to poor people, has become a new way of intervening in the lives of street children. However, those interventions are few very diverse.

Relying on the demand drivers of street children for financial services expressed in the previous chapter and on the general characteristics and needs of our target population, as well as equipped with two important evaluation criteria (effectiveness and sustainability), we start our building process in three phases: we first build *a minimalist microfinance for street children framework*, composed only of credit and savings; then, we build a “*microfinance plus framework*” by adding the vocational training component; finally, we add the operational requirement: “social services”, in order to reach *a comprehensive microfinance plus framework for street children*.

This final model being built, we turn to the most adequate provision model, by pointing out that the most appropriate one, in terms of sustainability, might be the youth organisation, but that large place can be made for microfinance institutions that can work in partnerships with youth organisations and gain considerably in terms of future clients. The final part of this chapter tests the validity of our new framework, by applying it to Padakhep, an innovative microfinance institution in Bangladesh targeting street children with microfinance.

1. MICROFINANCE: A WAY TO SUPPLY FINANCIAL SERVICES TO POOR PEOPLE

Microfinance refers to the provision of small scale financial services, primarily credit and savings, to poor and disadvantaged people (Robinson, 2001:9). It is being regarded as a powerful poverty alleviation tool and is bringing a lot of hope to the poor people all around the world. The microfinance movement - which some like to call “the microcredit movement” - started with the vision that the poor are bankable and that the conventional wisdom – claiming that the poor people could not use credit and that the costs of providing it was too high – was wrong (Harris, 2002).

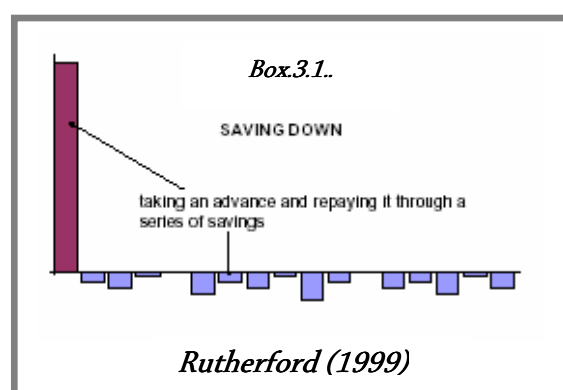
The new vision saw the emergence of financial institutions all around the world, united under the banner of microfinance and sharing a commitment to serving clients that have been excluded from the formal banking sector (Morduch, 1999). Those clients were initially offered microcredit in order to start microenterprises and to escape from the circle of poverty. However, as the movement spread all over the world, there has been recognition that poor people needed a variety of financial services, not just credit (UNDP, 1999). Now, the movement has expanded and, at the end of 2002, was claiming over 65 million customers (Aghion and Morduch, 2005). The essence of microfinance is to draw ideas from existing “informal sector” credit mechanisms – like intra-family loans, Rotating Savings and Credit Associations (ROSCAs)⁵⁰, and local moneylenders – while creating a viable conduit for capital infusions from formal sector banks, donors, and governments (ibid).

The supply of financial services to the poor has witnessed a huge expansion worldwide, largely because the poor were expressing a high demand. This demand has undergone some “changing conceptualizations” over the last four decades (Matin, Hulme et Rutherford, 1999). First, between 1950s and 1970s, there was a focus on the small farmers who needed agricultural credit. Then, from the 1980s to 1995s, the perception has been enlarged and the poor were seen as microentrepreneurs which needed microcredit. Now, we have entered “the microfinancial services era” where the poor are seen as “a diverse group of vulnerable households with complex livelihoods and varied needs” (ibid).

1.1. Products: credit, savings and insurance nexus

In the new microfinancial services era, three types of products are generally delivered to poor people: microcredit, microsavings and microinsurance.

A **microcredit** refers to the process which allows a lump sum of money to be enjoyed now in exchange for a series of savings to be made in the future in the form of repayment instalments (Rutherford, 1999).



⁵⁰ For a very interesting description of those informal mechanisms, see Rutherford (1999)

It has three characteristics: **a size, a term and an interest rate**, which vary among semi-formal providers.

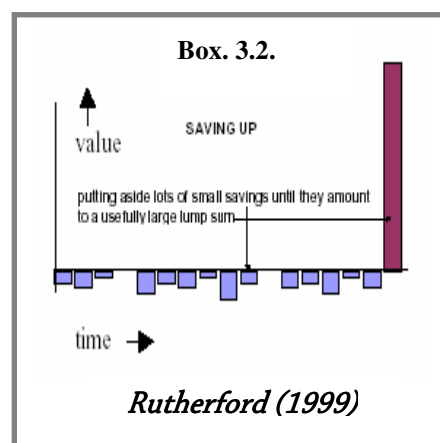
A. Loan sizes are the first characteristic which differentiates a microcredit from a formal credit. Indeed, loan sizes are generally smaller than those of formal banks. For example, the MicroBanking Bulletin Survey, analysing 72 microfinance programs worldwide, found that average loan balances varied from \$133 to \$2871 depending on the target group, with a global average balance of \$415.

B. Typical loan terms are also diverse. As pointed by Morduch (1999), Grameen Bank has a loan term of 1 year, Banco Sol Bolivia from 4 months to 1 year, Bank Rakyat Indonesia from 3 to 24 months, and FINCA of 4 months. It is therefore depending on the microfinance institution policy.

C. Regarding interest rates, Aghion and Morduch (2005) point out that in Bangladesh and Indonesia, the main institutions charge typically around 30 percent (in economies with inflation at about 10 percent). However, many MFIs around the world charge higher interest rates, in order to achieve sustainability.

Microsavings refers to the process which allows a lump sum to be enjoyed in future in exchange for a series of savings made now (Rutherford, 1999).

Matin and al. (1999) argue how savings – which they also define as “making choice not to consume cash”- is the fundamental and unavoidable first step in money management, without which financial services cannot operate. It made therefore a huge apparition in the microfinance area and Robinson (2001) points out how deposit services are more valuable than credit for poorer households. Saving products are generally of two kinds: voluntary or/and compulsory, the latter “forcing” the clients to save a certain amount of money in order to get access to a loan. Interest is generally provided against savings deposit.



Finally, **Microinsurance** allows a lump sum to be enjoyed at some unspecified future time in exchange for a series of savings made both now and in the future (Rutherford, 1999).

Cohen and al (2003) point interestingly the utility of insurance - “*Credit and savings services offered by microfinance institutions can reduce vulnerability to risk by contributing to increases in income, diversification of income sources, and asset building. Access to microinsurance could enable people to move into an even more proactive mode, and reduce the stress often caused when people deplete savings, borrow, or sell assets to deal with shocks after they occur*” (Cohen et al., 2003). However, as noted by Churchill and Brown (1999)⁵¹, microinsurance products have addressed a fairly narrow range of risks and the coverage of the poor population has been limited. The range of microinsurance products includes mainly credit insurance and life insurance. Some do also offer health insurance plans, property, crop insurance and the new rainfall insurance.

⁵¹ Quoted in Cohen et al. (2003)

1.2. Mechanisms

When talking about microfinance mechanisms, we are generally referring to the specific mechanisms surrounding the process of lending to poor people. Indeed, this is one of the major concerns of microfinance institutions: how to deal with poor people, lacking collaterals and hence being very risky, and to guarantee a good repayment in order to stay “alive”.

Four types of mechanisms are generally listed: group lending, dynamic incentives, frequent repayment schemes and collateral substitutes.

1.2.1. Group lending

The formal banking sector teaches us how credit is generally delivered to individuals with physical collateral. Poor people do generally have no collateral. Therefore, the microcredit movement introduced a new delivery methodology called “group lending”.

This word “refers specifically to arrangements by individuals without collateral who get together and form groups with the aim of obtaining loans from a lender” (Aghion and al., 2005). However, the loans are provided to the individuals and their projects, the group only being there to serve as a “guarantor” (this concept is called “joint liability”). The size of the group is variable, depending on the MFI choice.

Aghion and al. (2005) describe the process of a Grameen Bank group lending:

“The group – called Kendra - consists of five borrowers each; loans go first to two members, then to another two, and then to the fifth group member. As long as loans are being repaid, the cycle of lending continues. But, according to the rules, if one member defaults and fellow members do not pay off the debt, all in the group are denied subsequent loans.”

In order to reduce transaction costs, the loan officer meets seven other groups at the same time. All those 40 persons, called “centre”, meet usually in the village.⁵²

Because the joint liability contract implies generally that all the members of the group will not get any subsequent loans in case of default, they will have a high incentive to repay the loan of the potential defaulter.

Group-lending has interested a lot academic economists, and many economic papers analysed the effectiveness of such methodology; It is celebrated as a “contractual innovation that has achieved the apparent miracle of enabling previously marginalized borrowers to lift themselves up by their own bootstraps by creating ‘social collateral’ to replace the missing physical collateral that excluded them from access to more traditional forms of finance” (Conning 2000).⁵³

⁵² “Loan delivery costs fall dramatically due to the simultaneous delivery of multiple loans and reduced time needed for credit approval” (Karlan, 2001, quoted in Calles, 2005).

⁵³ Quoted in Simtowe and al. (2005)

The potential benefits of group-lending can be summarized in two points:

a. Mitigation of Adverse Selection problems:

Adverse selection problems occur when lenders can not distinguish risky borrowers from safer borrowers (Aghion and al, 2005) because of the information asymmetry problems.

Ghatak (2000), and Aghion et Gollier (2000)⁵⁴ state that the group-lending methodology helps to overcome adverse selection problems as borrowers, by forming their own groups, will use their own information to find the best partners⁵⁵. In such a process, the safe borrowers will naturally form groups among themselves as they will look for group members who would be able to manage their credit in a good way (Calles, 2005), and the risky borrowers will consequently be “obliged” to form groups together. This leads to a segregated outcome referred to in the labour economics literature as “*assortive matching*” where the MFI has easier to detect bad groups (Aghion and al, 2005).

b. Overcoming Moral Hazard:

“*Moral hazard in lending refers to situations where lenders cannot observe either the effort made or action taken by the borrower, or the realization of project returns*” (Simtowe and al., 2005). Two types of moral hazard are generally identified: ***ex ante*** and ***ex post***.

Stiglitz (1990)⁵⁶ argues that ***ex ante moral hazard*** can be overcome as the borrowers monitor each others’ choice of projects and inflict penalties upon borrowers who have chosen excessively risky projects. Indeed, a “bank” can not do that, as “borrowers are protected by limited liability since they have no collateral to offer; in other words the “bank” cannot seize more than the borrowers’ current cash flow” (Aghion and al, 2004). In that case, social sanctions may be exercised, as a borrower can denounce her/his peer’s “misbehaviour”.

This moral hazard concerns a pre-investment situation.

Interestingly, group-lending is also said to help overcome moral hazard generated after the poor client has made investment and generated profit; this is called ***ex post moral hazard***. Indeed, the bank being unable to check whether the borrower may want to escape with the money generated by the investment without paying back the lender or to pretend that his return realization is too “low” to payback, other members of the group may want to afford a certain monitoring cost to check the revenue realization of their peer (Aghion and al, 2005).

This monitoring - whose cost has though to be small - is induced by the joint-liability contract which creates pressure on the borrower and her/his peers; in other words, sanctions can arise if one member can not repay, and can therefore guarantee better repayment rates.

Thanks to these two potential benefits, combined with a potential reduction in the transaction costs of the organisation, group-lending is said to overcome credit market inefficiencies.

However, some authors pointed out that group-lending is not without problems. Indeed, as the groups are self-formed, collusion problems may arise.

⁵⁴ Quoted in Aghion and al. (2004)

⁵⁵ This process is called « peer selection » (see Morduch 1999)

⁵⁶ Quoted in Aghion and al. (2005)

For example, Sadoulet (2005) points out 3 potential pitfalls. First, the clients may collude against risks by choosing partners wanting to default. Second, they can collude against bank and inflict no punishment, since they agree to default. And third, joint-liability may not be costless for the borrower and can increase cost of repayment, hurting therefore repayment rates.

Considering this, many organisations started to reconsider their group-lending contracts. Grameen II reflects such reconsideration. Indeed, under Grameen II, Dr Yunus⁵⁷ wanted to open new scopes for the bank and to readjust its current practices with its cumulated learnings. In such a perspective, Grameen II tries to lower the pressure on the borrowers by developing other innovative ways of guaranteeing a good repayment rate (Rutherford, 2004). Individual lending is therefore more emphasized and group-lending is more based, for the members, on a problem solving process, where they will try to help each other solve the problems underlying repayment rates, rather than to make a high pressure on its borrowers.⁵⁸ As pointed by Yunus (in Rutherford, 2004), his original concept of group-lending was not aimed at “guaranteeing” the loans of its members, but simply to help the members solve the problems that underlie repayment difficulties, stating that joint liability arose from the imagination of economists. So, Grameen II is returning to its initial statement.

1.2.2. Dynamic incentives

An incentive is defined as something that induces action or motivates effort (the fear of punishment or the expectation of award). As group-lending alone can not guarantee good loan repayments and can create some problems, MFIs have developed innovative mechanisms in order to foster repayment rates.

Those dynamic incentives (Besley, 1995)⁵⁹ are generally combined with group-lending and are used to overcome information problems and improve efficiency (Morduch, 1999).

The most widely used incentive is “progressive lending”. In such a system, a loan of a small amount is first provided and then the size gradually increases as the customer demonstrates good repayment.

This system is claimed to have many advantages. The first is to “test” the borrower’s reliability. A second advantage is to increase the borrower’s opportunity cost of non repayment as he/she will not have access to a subsequent if he/she does not repay (Aghion and al., 2004).

However, this system contains two risks. First, if there is a high competition among MFIs, the borrower can go to another microlender and ask for a new loan. Second, default attractiveness is proportional to the loan size. The more the size increases, the more the borrower has a higher incentive to default.

Moreover, Morduch (1999) argues that dynamic incentives can be problematic in high mobility areas, because the borrowers can easily leave his/her place and go elsewhere. The efficiency of such mechanisms in urban areas is therefore controversial.

⁵⁷ The founder of the Grameen Bank

⁵⁸ Dr Yunus states that it was its initial idea when starting Grameen Bank and points out that “joint liability” arose from the imagination of economists and was not his initial objective.

⁵⁹ Quoted in Morduch (1999)

1.2.3. Frequent repayment schemes

One of the other particularities of microfinance is its repayment mechanism. When formal banking system teaches us that the borrower should repay his loan after the investment being made and the profits generated, microcredit lenders often expect the loan to be paid in small instalments, starting soon after the initial disbursement (Aghion and al, 2005). For example, Grameen type loans e.g. have weekly instalments, starting two weeks after the initial disbursement. (Yunus, 1999)⁶⁰

Morduch (1999) and Aghion et al. (2005) point out several advantages; it screens out undisciplined borrowers; it represents an early warning system about emerging problems; it is a mean for the bank to select less risky clients (i.e. select borrowers able to repay loans even if investments fail; therefore, the bank relies partly on the “diversified” income of the household, and partly on the cash flow generated by the borrower’s investment); and finally it allows the bank to get hold of cash flows before consumed or diverted.

1.2.4. Collateral substitutes⁶¹

It has been underlined how group lending is one way to secure the loan, for poor people having generally no collateral to offer⁶². However, some programs may ask for collateral. Those collateral substitutes may be of two kinds: flexible collaterals and financial collaterals.

Flexible collaterals - as those asked by the Bank Rakyat Indonesia - consist of tangible assets of any kinds (livestock, working tools, etc). However, the main constraint here is the “notional” value of such collaterals, in other words will the fact of loosing the asset be such that the customer will behave prudently? (Aghion and al, 2004).

Financial collaterals, where the borrowers are asked to build up financial assets and then to base lending on those assets. SafeSave, operating in the slums of Dhaka, is a good illustration of that mechanism.

To be able to get the first loan, the borrower must have already saved for three months. The saving requirement is therefore a very powerful instrument, showing the ability of the borrower to manage its money as giving the opportunity to the lender to “capitalize on financial collateral and its special place in the borrower’s heart and mind” (Aghion and al, 2005). Indeed, the lender will be able access the savings amount, in case the borrower defaults on a debt obligation.

⁶⁰ “Banker to the poor, the story of the Grameen Bank” quoted in Calles (2005)

⁶¹ We will outline here the two most widely used substitutes. For a comprehensive description of substitutes, see Aghion and al. (2005)

⁶² The notion of collateral refers to the assets that the borrower is willing to put up to secure credit (<http://sbinfocanada.about.com/od/financing/g/collateral.htm>)

2. HOW BEST TO MATCH MICROFINANCE WITH STREET CHILDREN⁶³

2.1. Prevalence of microfinance for street children

2.1.1. Introduction

The beneficiaries of microfinance interventions are mainly women⁶⁴. Cheston and Kuhn (2002) highlight three reasons that make women so popular among MFIs.

First is the financial criterion, which indicates that *“women’s repayment rates are typically far superior to those of men, leading therefore to lower arrears and loan loss rates and having a positive effect on the efficiency and sustainability of the institution”*.

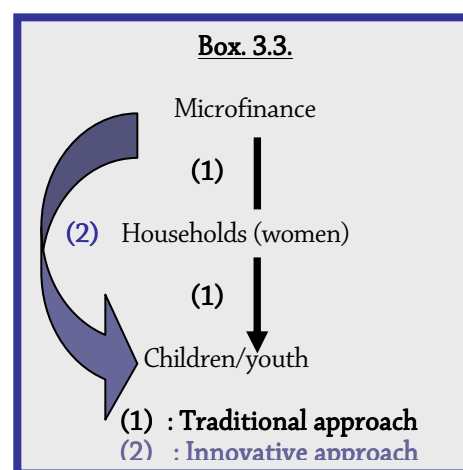
The second reason is the empowerment of women, which are generally located among the poorest of the poor, the UNDP reporting that 70 percent of the 1.3 billion people living on less than \$1 per day are women. (UNDP, 1995)

The last commonly mentioned reason is related to the higher impact created by the intervention on children. Children have, indeed, long been a priority of microfinance interventions but, surprisingly, have not been directly targeted by such interventions (Foy, 2001). Indeed, thanks to its “demonstrated” role of income generation and vulnerability reduction, microfinance is said to be able to improve children’s access to education, to enhance their nutritional and health status, reduce their need to work and even prevent them from having to turn to the streets to survive (ibid).

However, this framework assumes that the impact of microfinance

will be beneficial only if the household (especially the mother) is playing the role of interface. However, as pointed by Nagarajan (2004), *“capital is assumed to flow from the family for adolescents (...) but family support is limited for orphaned and poor adolescents to access capital to start a business and to help accumulate assets”*.

Consequently, microfinance has recently opened its scope of interventions to children and youth, as part of the new “Microfinance for youth” framework being advocated by some **youth serving organisations (YSOs)** and **microfinance institutions (MFIs)**⁶⁵ all around the world, wherein it is supported that poor youth need access to financial resources (*i.e. credit, savings, and insurance*) in order to build their capacity and to increase their employability. Indeed, youth between 15 and 24 years are more than 1 billion in the world, 85% being concentrated in developing countries where many are especially vulnerable to extreme poverty (ILO, 2006).



⁶³ We will confine our analysis to “savings” and “credit”, as the children who took part of our research did only have access to those to financial products. Therefore, this does not mean that microinsurance or other microfinancial products may not be suitable to street children. But this question is beyond the scope of our paper.

⁶⁴ Mody (2000), quoted in Morduch and Aghion (2005), found that 80 percent of the clients of the thirty-four largest microlenders worldwide are women.

⁶⁵ By youth serving organisations, we mean any organisation serving at-risk youth and include child rights organisations. By MFI, we use the definition adopted by Rutherford (2002) who defines it as any NGO that provides financial services to low-income people, either as their exclusive business or as part of a wider programme of development.

According to ILO, youth unemployment accounts for approximately 41% of all 180 million unemployed persons globally.⁶⁶

In these interventions, youth are generally defined as aged between 15 and 24 years old, but some adopt other definitions and classify it in a broader spectrum (e.g. 10 to 25 years old)⁶⁷. Within that framework, we generally find “*young poor, unemployed and school-dropouts in relatively peaceful countries* (as well as) *at risk youth, such as street children and those living in high crime areas*” (Nagarajan and McNulty, 2005).

Regarding the characteristics of such programs, very little documentation is being found all around the world and a high knowledge gap does exist. However, Chemonics International⁶⁸, under a project financed by USAID and trying to enlighten the topic of microfinance for at risk youth, lead a global survey in September 2005 wherein a sample of MFIs and YSOs around the world have been surveyed in order to assess the extent to which youth are being served with microfinance and it was found that the youth were addressed by a mixture of MFI and YSO, but the prevalence was still low (Nagaran and McNulty, 2005)

When referring to the specific segment of street children/youth, the knowledge gap is much higher and very few studies make a comprehensive review of microfinance programs addressing this particular population, because such programs are “*few and far between (...) and largely consist of isolated, one-off projects supported by NGO's*” (Foy, 2001)⁶⁹. Moreover, our different literature researches tend to confirm this global low prevalence, and the particular concentration of the supply in the YSO segment. So, both MFIs and YSO are still reluctant to address street children with microfinance.

Our two next sections are therefore aimed, first, at enlightening the potential reasons of such reluctance. We then follow the discussion by a review of the major microfinance for street children programs worldwide.

⁶⁶ILO means by “unemployed” any person without work but having made him/herself available for employment” (ILO, 2006)

⁶⁷The age range for ‘youth’ is not scientifically defined but the World Bank and UN definitions of youth define it as 15-24 years old. However, this is not unanimous and e.g. the World Development Report 2007 expands this spectrum from 12 to 24.

⁶⁸We want to thank Michael McNulty, from Chemonics International, for having shared some of their resources on microfinance and youth-at-risk.

⁶⁹The only study found that focus explicitly on microfinance for street children and that gives a global picture on that topic is the unpublished Master Thesis of Deborah Foy (2001) from the Institute of Development Studies of Sussex (UK)

2.1.2. Why do MFIs and YSOs avoid street children?⁷⁰

a. The MFI's perspective

1) Street Children are too poor. An important element which may impact the reluctance of MFIs to serve youth is the poverty criteria, where street children are generally perceived as “destitute” or extremely poor. One might wonder why this may be problematic, as microfinance institutions exist to serve the poor. However, even if MFIs exist for the poor, international evidence show that extremely poor (i.e. the poorest of the poor) are generally excluded from microfinance interventions. Indeed, Hickson (nd) points out that *“the majority of poverty-focused microfinance programs incorporate client selection criteria which attempt to limit participation to poorer households”*. Dalley-Harris (2003) interestingly indicates how the conventional wisdom that was prevalent 20 years ago and which was perceiving the poor people as unbankable is being repeated with the extremely poor people nowadays, perceiving them as unbankable because their sources of income is unstable. However, field experiences deny this wisdom. Grameen Bank, BRAC and SEWA learned through experience that conventional financial strategies for the poor did not make much difference at all for the extreme poor (Simanowitz 2002; Khandker 1998)⁷¹.

2) Street Children are too young. MFIs may believe that young people do simply not need financial services because they are too young to need manage their money. And even if they need it, MFIs may argue, as pointed by Nagarajan (2004), that child advocates oppose youth access to microfinance as it could create more child labourers vulnerable to exploitation ; that work may divert the child's attention from schooling and that work may inhibit the child's physical and psychological development.

3) Street Children are too risky. As underlined in our introduction, one of the reason that lead microfinance organisations targeting women was the risk mitigation, women's repayment rates being far superior to those of men. Regarding street children/youth, two parameters may increase the risk's perception function of the MFI: first, they are children/youth and second, they are street based. As children/youth, they are assumed to be less experienced than adults in managing a business and to have a higher propensity to use loans in a non-productive way. As street-based, they are assumed to be “criminals”, non trustable and highly mobile. Moreover, street children may not have any collateral, such as a home or a land and, worse, may not even have parents or other family members who have any collateral.

4) Street children are too costly. Many agree that street children need a mixture of financial and non financial services. However, a “microfinance plus program is generally costly to administer, and may face difficulty in achieving viability without continued subsidies” (Nagarajan, 2004). Indeed a knowledgeable staff aware of both microfinance and street children needs to be recruited in order to deal with the various issues facing the children during their livelihoods. Therefore, targeting street children may affect the MFI's sustainability.

⁷¹ Quoted in Davis (2000)

5) Street Children can not legally be our clients. The question of regulation is a very important issue. Indeed, many countries around the world require a minimum age of 18 for eligibility to enter into a legally binding contract (Mc Nulty and Nagarajan, 2005).

b. The YSO's perspective

1) Street children are not capable and need to be rescued from the street work life. Many youth organisations philosophy is built on a paradigm which perceives street children as vulnerable people which do not have any capacities and which do need to be protected from any working opportunity. This view is largely built on what we described in our first chapter as “the abolitionist or child-centred approach” and does not permit any provision of financial services, as this could be an incentive for the child to start working.

2) We are child specialists, not microfinance specialists. Such programs may need some specialized staff in microfinance in order to manage it efficiently as well as an effective management structure. Indeed, an organisation which has never provided services like savings mobilization or business training must invest a lot to set up an “*effective administrative system and training for both programme and management staff*” (Foy, 2001). Moreover, SKI explains how work with street children requires a lot of energy from the staff in order to understand the street children’s livelihoods.(Foy, 2001).

3) Providing financial services to them is too costly. Youth organisations do often survive thanks to limited subsidies and are not **self-sufficient**. This means that adding a microfinance activity targeting street children may need to divert a part of their actual subsidies to the program in order to finance the credits provided and the management costs underlined in our previous points.

4) We can not legally provide financial services. Legal barriers can lead many of them to avoid providing such financial services. Indeed, “*national and international legal frameworks placed on an organisation’s activities could further undermine the potential of microfinance. These include, for instance, whether or not NGOs are allowed to conduct income-generating activities to support their programs; whether only those registered as financial institutions are allowed to carry out microfinance activities; and whether there are legal restrictions on the acceptance of deposits by non-bank organisations*” (Foy, 2001)

2.1.3. Case studies

a. ASIA: the Children's Development Bank (CDB)⁷²

The Bal Vikas Bank, also called the children's development bank, was started in 2001 in New Delhi by Butterflies NGO, with the support of the UK organizations CIVA and Comic Relief. The program was initiated after having made 2 field observations:

- Street Children had money but no safe place in which they can store it;
- Street Children have entrepreneurial skills but did not have access to capital to start or expand a business.

The objectives of the Children's development bank can be summarized in 4 key elements:

1. To provide a safe space to deposit money.
2. To inculcate the habit of saving.
3. To provide loans for enhancing the lives and livelihoods of street and working children.
4. To create an institution run by young people for young people, and thereby build leadership and personal skills of all those involved in its running.

This project gives the opportunity to street children to save and, under certain circumstances, to apply for a loan in order to start a business or to afford other expenditures (school fees...). The innovative part of this project is its **participatory framework**. The children are themselves the "managers" of the bank and are involved in the day to day management of the bank, under the supervision of facilitators (called mentors). As pointed by Michael Norton, "participation is the central nexus of this project"⁷³ savings and loans being secondary.

The beneficiaries are aged between 9 and 18 years. Savings are collected daily in any small amount and an interest of 10% a year is provided on savings. Moreover, an interest of 50% is provided for those who do not withdraw savings for six months. Inculcate the saving habit is one of the core objectives of the bank.

The following table illustrates it:

	Savings as on August 2004	Savings indicated by CDB's (as on March 1 st 2005)
Chennai	0	1180
Delhi	510	50170
Kolkata	547	38215
Muzaffarpur	116	14320
Total India (in US\$)	1,217	103,885
Afghanistan	322	23984
Bangladesh	1052	417101
Nepal	467	353243
Total Afgh, Nepal, Bangladesh	1,841	794,328
GRAND TOTAL (in US\$)	6,072	898,213

1 US\$ = 45 Indian Rs

⁷² We are particularly thankful to Michael Norton (CIVA, UK) for the time spent in London making me discover this project and for the useful data and reports shared, as well as Swasti Rana and Tom Davis for their contribution, as well as Rabiul Ahmed for having made me discovered the project in Kolkata (India)

⁷³ In that regard, it is interesting to note that the slogan of the CDB is « Empowering children for democratic participation ».

At the age of 15 years, the members are eligible to apply for loans and to set up a business of their choice. To benefit from the loan (called « advances » in the CDB lexicon), children must have been members of the bank for at least 3 months and need to have 20% of the loan amount in their account. Both individual and group loans are available. In order to secure the loan (which is provided after the loan committee, composed of the children themselves, has examined the application), two guarantors are required (e.g. a shopkeeper or another street child).

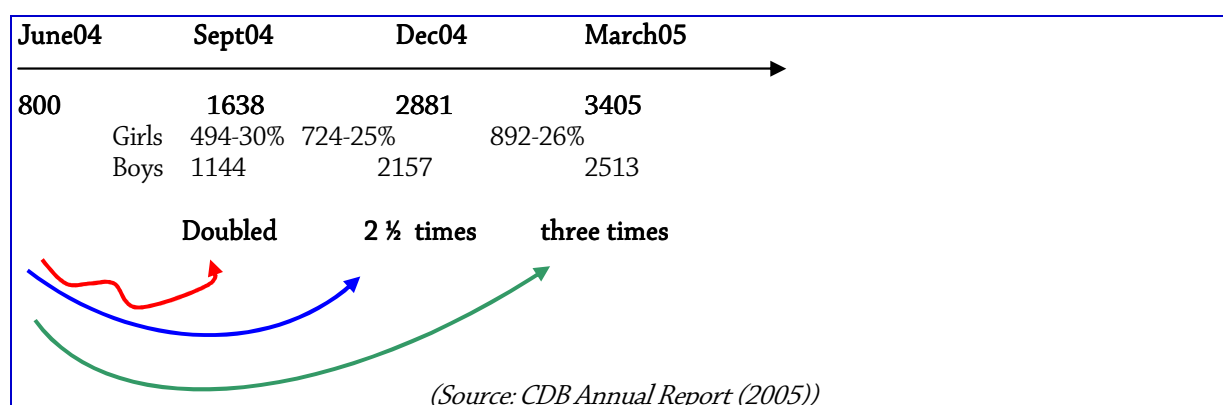
Two types of advances are being provided

1. **Welfare advance** : an interest free amount aimed at helping street children in their emergency expenditures
2. **Development advance**: to initiate economic enterprise, provided only to adolescents (interest rate: 5%)

Loan repayments are made daily, weekly or monthly, at the discretion of the loan committee.

Only in Delhi, advances were given to several children for various businesses. From June 2004 to March 1st 2005 about RS 18,000 (i.e. 400 US\$) was given to children to start economic enterprise and about 15% was considered bad debt, *“as children either could not continue with their business or had to leave the place and go somewhere else and some went back to their families”*.

The Bal Vikas Bank is now spreading to some other neighbourhood countries (Nepal, Afghanistan, Bangladesh, etc), and the number of members increases day after day.



The total membership status is illustrated in the following figure:

	Members		Age		Total	Percentage %	
	Girls	Boys	Girls	Boys		Girls	Boys
<i>Afghanistan</i>	212	123	8-18	9-18	335	63	37
Bangladesh	157	429	9-18	9-18	586	27	73
Chennai	41	34	9-18	9-18	75	55	45
Delhi	99	1395	8-17	8-17	1494	7	93
Kolkata	143	188	8-16	8-16	331	43	57
Muzaffarpur	119	124	9-18	9-18	243	49	51
Nepal	121	220	10-15	10-15	341	35	65
TOTAL	892	2513	8-18	8-18	3405	22	78

Source: CDB annual report (2005)

Finally, we must note that the “children’s development bank” is a project initiated by Butterflies but which relies on local youth organisations in order to implement it. As pointed in their international training report (2004),

“Butterflies” identifies NGOs working with street and working children who should necessarily have participation and involvement of children as a core value.

Regarding the effectiveness of their programs, no comprehensive impact assessment has yet been undertaken. However, through the collection of some case studies, the organisation is pointing out that children value a lot those services. Indeed, the increase of the members is one of the core indicators. Moreover, some individual case studies indicate that many children have been empowered thanks to their new business activities started thanks to their credit. Finally, the children’s development bank core emphasize is on participation; and it says to bring considerable added value to the children as it enables them to learn the principles of democracy and solidarity.

b. AFRICA – Street Kids International (SKI)⁷⁴

SKI initiated, in 1996, a joint program with the Zambia Red Cross Society and the YWCA Council of Zambia called the Youth Skills Enterprise Initiative (YSEI). By targeting street youth in Zambia aged between 14 and 22, this program had two core objectives: to earn increased daily income and to learn useful business and life skills. The goal was therefore to encourage economic empowerment of the youth, by listening to what street children have to say and do express as their needs, considering their actual capabilities. Indeed, as pointed by SKI, this is a particularly new approach in working with street children, which is mainly built on a new paradigm: rather than using the paradigm of absence - *in which children and youth are “absent” without a voice and without recognition of their experience* – SKI uses the (new) paradigm of the child as a person” (Sauvé, 2003). This leads therefore to see street youth as capable human beings, who have something to offer rather than “empty vessels needed to be filled and helped” (ibid). They can therefore not benefit from financial services.

SKI has therefore developed a Street Business Toolkit, aimed at helping street based working children to develop a viable business plan for a street-enterprise initiative, prior to loan distribution.

Four program elements are part of the foundation of this program.

These are:

- ***Accompaniment*** : Youth workers support participants while they establish their business within the larger context of their life
- ***Skills training*** access to business planning and management.
- ***Credit and Savings*** : each participant is encouraged to save and can access a total of three loans (the 2nd and 3rd are larger)
- ***Peer Support Networking*** : as participants' share skills and opinions, they mutually reinforce each other's efforts towards positive change in their lives

The SKI approach is more based on a general intervention aimed at stimulating enterprise creation among street based working children and “credit and savings” is one of the components of this program.

Concerning the effectiveness of such intervention, SKI is pointing out several positive impacts:

⁷⁴ This part is based on the reports published by SKI and the article of Stephanie Sauvé (2003)

Box. 3.4.: Impacts of SKI microfinance program

Impact on Street Children

- Greater financial resources to buy food, clothes and household essentials.
- The ability to identify goals for themselves and for their business.
- Reduced involvement in high-risk behaviour.
- Greater understanding of how HIV/AIDS is transmitted and prevented.
- Friendship and support from other participants.
- Improved relationship with their family.
- Sense of pride, self-identity, and purpose.

Impact on Families

- Meals and household supplies supplemented through the participants' contributions.
- In several cases, the participants subsidized siblings' school fees.
- Parents/guardians feel proud of their child's productive use of time.
- The participant is much less dependent on family resources and financial support.

Impact on Communities

- Participants are staying in the community and off of the streets.
- Participants are becoming positive role models for their peers.
- More products are accessible in the communities, and are often available on credit.

From Street Kids International (2002 : 37)

c. LATIN AMERICA: Pronats⁷⁵

Pronats is based in Peru and has been implemented in 1994 by Manthoc, a famous working children's organisation, and by various other partner organisations. Their approach is based on the paradigm of children "as subject" with its own desires and needs. The organisation is particularly renowned for its successful struggle to include the recognition of children's right to work in Peru's national children's code, and working children covered under the same medical plan as adult workers (Moore, 1999)⁷⁶.

Pronats microfinance program is mainly based on an integration of the informal microfinance practices. Indeed, street working children of Lima and Cajamarca are provided loans (up to a maximum of US \$188) on a system of rotating funds and invest it in different activities. *"Children use these loans to initiate their business or supplement their savings to start up businesses (...) and has registered a return rate of 50 to 70 %"* (SKI, 2002). In order to get this loan, the child put forward a proposal and is then interviewed to discuss it. The repayment schedule is quite flexible and Pronats has penalties in case of arrears.

"It helps us to develop a business. When a person wants to get funding, they have to talk to the coordinator who talks to the fund and they give you an interview...you say how much you need and how much you will earn. The fund asks you what you will do with that money...if you can pay the loan. The rotating fund lends you up to 500 soles (about US \$188) and asks you how much you can pay...I used to pay every 15 days."

A girl from Pronats - Tolfree (1998)

I was selling sweets in the middle of the streets and was always facing the dangers of being hit by cars. Now, thanks to a credit received from Pronats, I was able to change activity and to sell cassettes in front of a school, a safer place!

A girl from Pronats

Adapted from Tolfree (1998)

One particularly important aspect is that street children are involved in different workshops for discussing themes such as "how to use loans", business administration, the principles of selling, working conditions, managing money, etc.

Another interesting point is that the organisation is pushing street children to change activity regularly in order to find what suits them the best and the work which would offer better financial rewards.

⁷⁵ The program outline is based on the excellent book of David Tolfree (1998), outlining and analysing several programs addressing working children around the world.

⁷⁶ Quoted in Foy (2001)

d. **Learning points : Demand and supply**

Those three case studies highlight three important elements:

- **Subject oriented approach:** the three projects are built on the new approach which has been highlighted in our chapter 1, which perceives non hazardous work as an essential vehicle of juvenile socialization, training and self-esteem and which highlights the necessity to listen to the street children, and to consider them as capable human beings which know about their affaires and are supported in this.
- **Demand for financial services:** Our chapter 2 highlighted how the street children who took part in our research do need financial services for various reasons. The three programs outlined before extend our findings and tend to show that street children in other Asian countries, as well as in Africa and Latin America do need financial services and this demand can not be argued to be “supply-driven” (in other words that the organisations did create the demand by supplying their services) as those organisations are built on a subject-oriented approach.
- **Holistic approach:** All those programs do offer more than traditional savings and credit products. They do argue that street children do need additional services, such as training and life skills, and that microfinance intervention should be sequenced with those services in order to have a positive impact on street children.

2.2. Effectiveness and sustainability: the trade-off

Our previous section outlined that microfinance is a new way of intervening in the lives of street children and sketched some programs worldwide. This section is aimed at discussing the two important concepts which will follow us in the next pages of our paper, and which must be kept in mind whenever discussing microfinance for street children.

2.2.1. Effectiveness

Any intervention addressing street children need to be effective, i.e. it needs to create a positive impact on them. The three programs highlighted above, although no formal impact assessment has been carried out, underline that such interventions do have positive impacts on street children, as street children are asking for it and such access does enhance the street children self-esteem and helps them to have a better future.

However, two objections may be put forward by MFIs and YSOs who are still reluctant to serve street children.

- **Supply-driven demand:** Providing financial services to street children may be a pushing factor to the street, because of the supply-driven demand it may generate: the greater is the supply and the greater may be the demand, and the worst may be the street children issue. For example, Lewis (1998)⁷⁷ does argue that programs for street children often make life on the street more bearable, thereby contributing to an increase rather than a decrease in the number of street children.
- **Mitigation of positive impacts:** even if some positive impacts may exist for some street children, they can be mitigated by negative ones. For example, street children may use the money provided to them in buying things that increase their vulnerability, such as drugs and alcohol; they may also want to leave completely school, and to start working because of their new profitable working activity.

What could those organisations argue against those objections? Mainly two things:

- **Targeting strategy:** Kobayashi (2004) points out that some solutions exist in order to mitigate those incentive effects and propose two solutions:
 - a. Good targeting mechanism*, by setting clear criteria in order to have a barrier to entry in the programs;
 - b. Prevention*, by initiating some activities in the local places of children in order to avoid migration.
- **Holistic approach:** In order to mitigate the negative impacts, the programs outlined before point out the necessity to have a well-designed intervention which adopts a holistic approach, and therefore tackles all the vulnerability parameters of street children.

Assuming that such intervention may be effective by following a holistic approach (this assumption will be discussed in the following section), this second argument leads us to analyse the second important concept, namely the sustainability.

⁷⁷ Quoted in Kobayashi (2004)

2.2.2. Sustainability

Assuming that microfinance for street children may need a holistic approach leads us to discuss our second core concept: the sustainability.

Indeed, providing additional services such as training and education means designing a “microfinance plus program”⁷⁸ and avoiding a minimalist approach centred only on the provision of financial services.

However, as pointed by Nagarajan (2004), a microfinance plus program is generally costly to administer, and may face difficulty in achieving viability without continued subsidies. In other words, this approach can jeopardize the sustainability.

Indeed, financial sustainability requires the organisation to cover all its costs (cost of capital, administrative costs and provisions for loan losses) thanks to the revenues generated by the intervention in order to reach the maximum of poor people thanks to a minimum of resources⁷⁹.

This means essentially doing two things:

- Keep operating costs to a minimum
- Set interest rates on loans in such a way that it covers all these costs

But those two criteria may be hardly reached in case of street children taking into account the necessity to provide a holistic approach. Indeed, keeping operating costs to a minimum would mean providing no additional services that street children may need. Moreover, setting high interest rates would mean targeting the better off street children as well as reducing the total profits of the child.

So here appears a trade-off between effectiveness and sustainability, where on one side we may have an effective but a financially unsustainable project; and on the other side a financially sustainable project, but which is less or not effective.

Taking into account our objective, i.e. to maximise the street children well-being, we would argue that even if the microfinance program for street children is financially unsustainable, it could have sense to launch it if the project is effective. This leads therefore to assume that, most probably, a microfinance intervention for street children will not be financially sustainable and therefore will need to depend on subsidies.

But assuming this should not stop us from thinking about our research topic. Indeed, if the provision of financial services to street children is an effective system of delivering those subsidies, a microfinance program for street children could have all its sense. Moreover, the impossibility (or difficulty) to have a financial sustainable program must not avoid us from thinking about **program sustainability**, which means finding a way to guarantee a long-term viability of the program, keeping in mind the limited amount of subsidies available. We will therefore view in this paper “program sustainability” in terms of two parameters:

- 1. *Minimization of the intervention costs***
- 2. *Ability and commitment of the organisation to keep delivering the adequate services in the long-term***

⁷⁸ The term “microfinance plus” refers to programs which provide financial services along with other services.

⁷⁹ As pointed by the CGAP, financial sustainability is not an end in itself, but it is the only way to reach significant scale and impact far beyond what donor agencies can fund. See www.cgap.org/docs/KeyPrincMicrofinance_CG_eng.pdf

2.3. How best to match microfinance with street children?

This section is aimed at discussing the core elements that need to be part of a microfinance intervention targeting street children. Our challenge in the next pages is to propose a well-designed microfinance framework for street children, taking into account the need to reach a **good balance** between **effectiveness** and **sustainability**.

This will be done through a progressive approach, by building up three microfinance frameworks: a **minimalist** (section 2.3.1), a **microfinance plus** (section 2.3.2.), and finally a **comprehensive microfinance plus framework** (section 2.3.2.)

2.3.1. Financial services

A. Microsavings for street children

Thirty years ago, whenever talking of poor adults financial needs, we were pointing out that those people did not need savings services for two reasons (Aghion and al., 2005: 160):

- They are too impoverished and too undisciplined to be forward looking (Bhaduri 1973)⁸⁰
- Even if they are forward looking, there are many informal ways to do so, and there is therefore no sense in providing this through a semi-formal way.

These two hypotheses have now been rejected for adult people, and considerable evidence tends to show that even poor households are eager to save, if given appealing interest rates, a conveniently located facility and flexible accounts (Morduch, 1999:1606).

Concerning street children, our second chapter, having reviewed the demand of street children for financial services, pointed out how those two arguments were false:

- Street children are forward looking, but are quickly trapped into a vicious cycle due to the street insecurity.
- Because of their perceived statute of '*destitute*' and '*criminal*', very few safe informal ways of saving money do exist for them.

Therefore, at this stage, we know that street children need savings deposits. Then, one question remains: what sort of savings services do street children need? Rutherford (2002) teaches us that a saving scheme must have three main characteristics: reliability, convenience and flexibility. Let us review it in application with street children.

1. Reliability

Reliability is the "quality that, above all others, is conspicuously missing in the world of money management of the poor" (Rutherford, 2002). The need of security is therefore important for each poor, and it may even be more important for street children. Indeed, our demand analysis has demonstrated how street is an unsafe environment for them and how the informal devices were as much risky. Street children need therefore a place where their money will be in high security. It is therefore essential for such saving scheme to be very secure.

⁸⁰ Quoted in Aghion and al (2005)

Morduch (1999) points out that only tightly regulated institutions should be entrusted to hold savings, but this would exclude most microfinance programs worldwide. Moreover, as pointed by Rutherford (1999), many state-owned banks in developing countries are unreliable. So, security conditions must be a priority of all saving scheme. In case of street children, any place which serves as deposit (centre-based or not) must carefully check its security conditions.

2. Convenience to pay-in and take-out

We have underlined how street children need savings in order to cope with emergencies. Saving deposits need therefore to be convenient, i.e. to be both accessible and quick, so that children will find it easy to withdraw money when a sudden emergency hits them.

In order to be **accessible**, the deposit service has to be local, i.e. to be based in the location of the child. Placing a deposit service far away from the children living and working place would be inappropriate, as the child will have no incentive to deposit his/her money. A particular place can meet this first criterion: the drop-in-centres. Indeed, street children, after integrating some programs launched by diverse NGOs, are provided with various services in some centres. Those centres are places where children can feel relaxed and comfortable, safe and looked after (Ennew, 2000: 111). It can also provide night shelters, but it is not always the case. In those protected places, street children usually gather and spend a large part of their time. It seems therefore that the best accessible solution would be to settle the saving scheme in or near drop-in-centres⁸¹.

In order to be **quick**, minimum delay must follow the child's request to access his account. In order to guarantee such mechanism, transaction costs have to be restricted (i.e. no heavy paperwork, etc.). Two options do exist in terms of registering:

1. **Personal passbook**: even if this has the big advantage to create a positive effect on the child's willingness to save, as the child may feel more committed to the project, this has two disadvantages:
 1. **Costly to administer**: the passbooks, even if done in the most basic material, have a cost; moreover, given the high probability for the child of losing it in the street, it does need a specific place in or near the drop-in-centre in order to store it.
 2. **Not quick**: the registering officer must record the amount on the saving book of the child and on a register in order to keep general records in the organisation in case children lose their passbooks or for reporting data.
2. **Register book** based in or near the drop-in-centre seems to be the best solution. Two options do exist: a manual book and a computerized system, the latter being the best one (a simple Excel file may be appropriate, or better a specialized microfinance software if available)

⁸¹ Our two determinants "in" and "near" are maintained here, as we still need to keep in mind our double delivery strategy, i.e. YSO ("in") and MFI ("near")

3. Flexibility

Flexibility is a key element of deposit services quality. Indeed, our demand analysis pointed out that street children do generally handle very small amounts of money, which they may need to deposit though. Consequently, the system in place needs to guarantee flexibility by allowing the children to save and to withdraw any amount of money, as small as this could be. Therefore, the core of the process must be based on voluntary savings, and the organisation should not avoid children withdrawing their money for any kind of imaginable reason: it is the children's money, and the only person that must have control on it is the child, nobody else.

However, the children's development bank and SKI do point out the question of compulsory savings, which may be important for two reasons: as a learning opportunity for the child; and as financial collateral for loan disbursements. This point will be discussed in our next section, dedicated to credit.

Now that those three fundamental criteria have been underlined as being the foundations of a microsaving scheme for street children, we need to highlight two other important elements, namely the need to find innovative ways to attract saving deposits, and the need to provide more than money deposits:

⊕ **Stimulate saving deposits: the importance of returns**

It is generally said that returns are important in order to stimulate savings. The Children's development Bank, for example, is giving 10% a year, and 50% for those who do not withdraw savings for six months. Although interesting, this solution can cost a lot to the organisation and may impact the program sustainability. How can we therefore find another way of stimulating saving?

As pointed in our chapter 1, street children are vulnerable and this vulnerability may impact their self-esteem. Providing them with what we can call "*non monetary returns*" may therefore be useful. Those returns can consist of giving some rewards in public to the street children who saved regularly. Apart from enhancing the self-esteem of the child, it could be a high incentive for other children to save more and more and to feel more concerned by the program.

Finally, we must point out that our aim is not to avoid giving "monetary returns" to children, which can enhance their income and be profitable to them and their family, but we try in this paper to find some ways to maximize the effectiveness of the intervention, given the sustainability criteria, which one requirement is a cost minimization. Indeed, without the last aspect, we could argue that providing both monetary and non monetary returns are needed. However, we think that "non monetary returns" may be sufficient in stimulating saving deposits and that given the high need of street children to save money, interest rates may be of little importance to them.

⊕ **Assets deposits**

As pointed by Ennew (2000: 112) street children may not only need to save money, but also to store some valuable things, such as working materials, or personal belongings. Therefore, offering the possibility to the children to deposit their assets is crucial, particularly after a child may start his/her business.

B. Microcredit for street children

Our chapter 1 (section 2.3) highlighted how street children accumulate skills and are plenty of capacities due their street life experience. Moreover, our demand analysis (chapter 2) pointed out how some street children need credit in order to start their own income generating activities whose returns are used for meeting their diverse expenditures and their families' expenditures, but do have a very low access to credit and hence can not initiate their own enterprises.

This finding is coherent with our three programs outlined below and it tends to show that this need is not only confined to Bangladesh. For example, SKI (2002) points out interestingly that:

Poverty combined with the lack of access to credit are some of the biggest obstacles that face street youth wanting to engage in healthy and safe income generation. Without money, street youth are unable to make the investment necessary to buy the initial assets their business needs. Most lending organizations do not trust the credibility and reliability of street youth seeking loans. Hence, street youth are left feeling discouraged". (SKI, 2002: 15)

Access to credit is therefore perceived as way to secure the future of the children, as it encourages economic empowerment and supports their socialization process. Moreover, it is a way to enhance their self-esteem by the success of their business activity, enhancing therefore their personal agency.⁸²

This section is therefore aimed at throwing light on the appropriate product design and delivery needed in order to address street children effectively and in a sustainable way.

1. Product design

As pointed in our first section, a microcredit is characterized by three elements: a size, a term and an interest rate. Let us review those three components in application with street children

1.1. Loan size: small but tailored

Our previous case studies tend to demonstrate that loan sizes provided to street children must be smaller than conventional microcredit scheme and that the credit amounts tend to be comprised between US \$ 20 and US \$100, depending on the program. Indeed, small loan sizes have advantages both in terms of effectiveness and sustainability:

- ✓ **Effectiveness:** it limits the risk faced by the child to fall into high indebtedness in case his/her investment fails, compromising his/her ability to repay, and creating instability in the future as the child must look for other ways of repaying back the money during a considerable long period.
- ✓ **Sustainability:** it limits the risk of default facing the provider and it increases the provider's outreach.

⁸² "Agency can be an individual or collective (group) attribute and refers to the ability to act on and/or take control of one's life, to change one's circumstances etc. It is an important component of self-efficacy and can make all the difference in situations of adversity to individual or group survival. ie. people who passively accept their fate rather than actively strive to overcome it are more likely to be overwhelmed" (*Jo Boyden: personal email communication: 21 May 2006*)

However, the loan amount should be sufficient to meet the child's investment costs, and needs absolutely to be tailored to the child individual needs and his/her ability to repay (depending on his/her ability to make good investments, to manage correctly his/her business, as well as the child's repayment discipline). So, different categories of credit amounts must be proposed, from the smallest one, to the "largest" one.

1.2. Loan term: flexible but delimited

Flexibility is a key issue, in both savings and credit. Regarding credit, flexibility means that the term of the loan could be changed if the child is not able to meet the first deadline. This has been pointed by SKI as an essential factor of success, for both the lender and the borrower.

- ✓ **Effectiveness:** it avoids the child to fall into indebtedness (borrowing money from other people, and creating tensions if the child is not able to repay to the informal lender) in order to meet the deadline.
- ✓ **Sustainability:** it guarantees a higher final repayment rate, as non flexible loan terms might push the child, who is witnessing that he might hardly be able to repay the loan before the deadline, to run away.

However, the child must be aware that flexibility is not unlimited, but is settled between correct boundaries (e.g. between 6 months and 1 year)

1.3. Interest rate: low but adequate ⁸³

The three programs outlined below show a mixture of practice in terms of interest rates. For example, SKI is charging 15% and the children's development bank stands relatively low with either an interest of 5% (*development advance*), either no interest (*welfare advance*). Foy (2000) indicates that some other programs worldwide are charging no interest at all.

Charging interest rate can have two impacts on effectiveness and sustainability

- ✓ **Effectiveness:** an interest rate reduces the total available income of the children
- ✓ **Sustainability:** more than the question of bringing additional revenue which may cover a part of the administrative costs, it can also be a barrier to entry to those who do not have a business project, limiting therefore the amount of loss (given a successful investment)

But in order to avoid depleting too much of the effectiveness, such interest rate must remain small. The range of 5-15% seems to be the most commonly used among practitioners.

So, we should suggest designing two different products, as does the Children's Development Bank: one with interest (for business starting activity) and one without interest (for emergencies, etc.)

⁸³ The high majority of programs call it "service charge" instead of "interest rate", for both economic reasons (to avoid falling into the regulation process) and ethical reasons: as pointed by Padakhep staff, we should not speak about "interest" with street children, as we are not making profit, but just try to cover costs.

2. Criteria for accessing credit

One of the core elements that could guarantee the effectiveness and the sustainability of microfinance for street children programs is the setting up of conditions to be met before any loan is disbursed. Those are essentially based on two pillars:

2.1. Good targeting:

Targeting the appropriate children is essential. Indeed, our chapter 1 illustrates the diversity existing among street children, across and inside countries. Therefore, it is important to keep in mind that not all street children are potential entrepreneurs and need to start a business. Our chapter 2 has highlighted this point, some children stating that “*they do not need credit*” at all. This implies the necessity to have a well-designed targeting strategy in order to target the children that will be the most committed, able and motivated of doing so. This targeting could be built on four elements:

- ✓ **Age:** all programs do highlight the necessity to provide loans for older street children, as the younger ones have lower capacity to start businesses. For example, the children’s development bank gives business loans to children of minimum 15 years and SKI to children of minimum 14 years.
- ✓ **Membership:** one of the key considerations in such a program is the necessity to know the child before disbursing the credit; this means that a loan must only be disbursed to the child who has been “member” for some months. This allows avoiding disbursing a credit to a child who may be too much vulnerable (e.g. drug addicted); but this implies also disbursing credit to the ones who showed good performances in the past.
- ✓ **Willing, motivated and able:** a microcredit program needs to address the street children who are willing, motivated and capable to start a business activity in order to analyse if such activity may be the most suitable for the child.
- ✓ **Feasible business plan:** Pronats and SKI highlight the necessity for the child to think deeply of his business and to propose a small business plan before disbursing the credit. This business plan must be feasible and take into account the local informal market structure and competition.

2.2. Collateral substitutes

The collateral can take two forms

- a. **Compulsory savings:** loans are given to children who had previously saved and the loan amount provided will be equal to “x” times the last saving balance
- b. **Guarantors:** the children’s development bank is giving loans to children who can provide two guarantors (e.g. a shopkeeper and another street working child)

3. Product delivery

Now that we have an idea on the product that may suit the best street children and the criteria for accessing such product, we need to discuss the way of delivering such product, in order to ensure both effectiveness and sustainability.

3.1. Group-lending

Our chapter 1 (section 2.3.) underlined that one of the main characteristic of street children is their altruistic behaviour and the supportive networks they do create among themselves. Kobayashi (2004) indicates interestingly that, *because solidarity among street-involved children and youth is very strong in general, and they tend to enjoy interacting among themselves, many programs have incorporated group activities and promoted interaction to maximize the positive effect of peer groups*"

Moreover, microfinance best practices demonstrate how the providers need to integrate the strength of their beneficiaries into their programs to transform it into an advantage. In that regard, the prevalence of solidarity among a particular group is a precious strength, which can both benefit the children and the provider.

In terms of **effectiveness**, a group lending system can be doubly beneficial:

1. The peer support gives the children the opportunity to share skills, opinions and ideas. This is a good learning opportunity – they support themselves and collaborate for the success of their respective businesses and therefore reinforce each other's efforts towards positive change.
2. This enhances their self-esteem and self-confidence, as they feel that they have a place and a role in the society, and that their voice does account for something.

In terms of **sustainability**, it can:

1. Increase repayment rates, thanks to the peer monitoring and peer support.
2. Enhance the sustainability of the project, from a double perspective: a good repayment rate, and a higher feeling of belonging to the organisation, guaranteeing therefore their long term commitment.

Concerning the size of the group, SKI advises to limit it at about 5-7 members per group, as a bigger may lead to less flexibility for children in choosing their partners.

Moreover, concerning street children, we can broaden the traditional concept of group-lending (i.e. disbursing credit to individuals who are part of a group) to include the notion of group-enterprise, where the loan might be disbursed to a group of street children in order to create together their enterprise. For example, the children's development bank, after having witnessed the limitations of individual lending, is orientating its future activities towards group-enterprise: *"...in a group enterprise there is peer pressure and the children are motivated to move along with the group and continue to put in their efforts to make the enterprise successful. Thus, now the focus is on providing skills to a group of children and initiating a solid group enterprise"*(CDB, 2005).

The idea proposed is therefore to try to launch, in parallel to or in place of individual business, a group business where the children will initiate and manage together their own business.

3.2. Progressive lending

All organisations point out the importance of starting small, and of expanding the loan size with the performance of the child. SKI does adhere to such philosophy, by offering a first loan up to US \$ 40 and a second loan up to US \$

80 and a third loan up to US \$ 85. As a consequence, the child's reliability will be tested and this will increase his/her opportunity cost of non repayment.

3.3. Frequent repayment schemes

Padakhep's repayment period is weekly based. This has been emphasized as a necessary condition for street children, as it would enable them to avoid falling into debt if trying to repay a high amount at the end of a longer period. Moreover, it is a way for the institution to screen the child's ability and willingness to repay the loan amount. Starting very early after the loan disbursement seems to be also of high importance, but it has to consider the child's ability to repay in order to avoid indebtedness of the child.

3.4. Linking the guardians

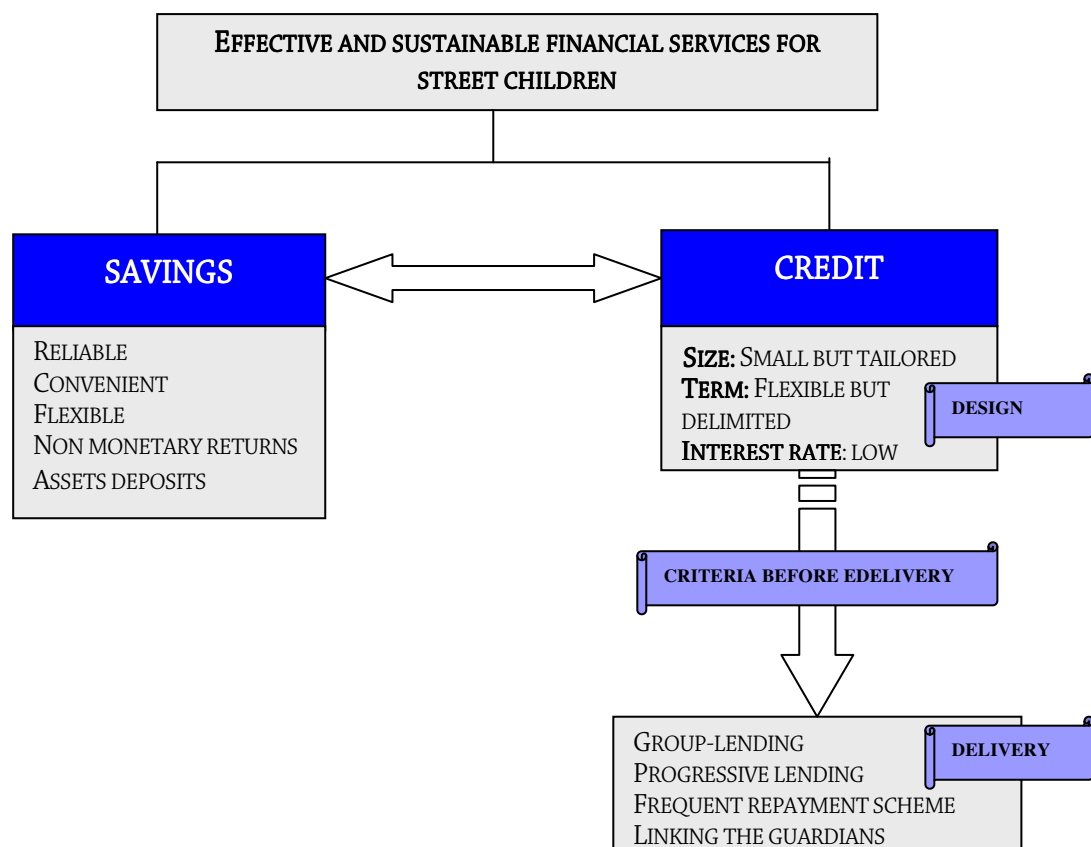
Our chapter 1 pointed out how the majority of street children around the world are closely connected to their families, passing most of their time on the streets in order to support their family and returning back home at night. Linking the guardians (i.e. parents or relatives) is therefore important and, as pointed by SKI, the importance is to guarantee that they approve the child's participation in the program, without interfering with his/her business, but supporting the child whenever he faces any problem. The youth workers may do this, as proposed by SKI, through the signature of a contract by the guardians.

C. microcredit and microsaving: a bridge

Providing credit in order to allow the child to start an economic activity will not be effective if the child is not pushed to save his/her money in order to reinvest it into his/her business.

D. A minimalist microfinance framework: visual summary

FIG. 3.1.



2.3.2. Supporting services: the need for vocational training

Our previous section outlined how should financial services for street children be designed and delivered in order to be effective and sustainable. At the same time, we remember that the programs outlined previously are doing more than just providing financial services to street children and point out the need to complement financial services with other supporting services. Indeed, even if motivated, willing and committed to start a successful business, street children may lack the appropriate skills to do that. Vocational training is therefore one solution to support street children in acquiring those skills. This concept generally refers to an educational activity oriented to provide necessary knowledge and skills for exercising a working activity.⁸⁴ This is a common education option in projects for street children and Kobayashi (2004) classifies vocational training in 4 categories. Three of them can be characterized as a direct supporting service to our microfinance framework, the fourth one being also important but is not directly a supporting service. However, all of them have the finality to offer street children with alternatives to harmful or illicit work.

a. Production-oriented training

This type of training it focuses on technical skills needed to produce goods and services and generally comprises trainings such as mechanics, electronics, electrical wiring, carpentry, welding or tailoring. However, Ennew (2000:133) warns about the risk of stereotypes that may be part of such schemes, where girls are being taught cooking and sewing, and boys mechanics. It needs therefore to be diversified and Kobayashi (2004) points out that the key is to design a vocational training that matches the demands of participants, the skill levels of participants and the demand of the market

b. Service-oriented training:

This training focuses on skills needed to provide specific services to other businesses and final consumers. It includes mainly technical training which focuses on the way to serve the consumer (such as in the hotel business), and one major part of it concerns “retailing”, such as grocery shops, or restaurants.

c. Entrepreneurship development training

Once being graduated from the previous training sessions, the child has two options: either work as an employee in a particular business (grocery shop, mechanical shop, etc), or start his/her own business. In the second option appears the notion of “entrepreneurship training”.

Stevenson (1997)⁸⁵ reminds us about this concept and points out that it refers to *“The process whereby individuals become aware of business ownership as an option or viable alternative, develop ideas for business, learn the process of becoming an entrepreneur and undertake the initiation and development of a business”*. This means that, after being graduated from the previous vocational training sessions, the organisation should provide awareness about business opportunities for street children, and helps the ones who are interested and capable of

⁸⁴From www.ilo.org/public/english/region/ampro/cinterfor/publ/tunion/casanova/pdf/what_is.pdf (the article offers an interesting view on the evolution of the concept across time)

⁸⁵ Quoted in Schoof and Haftendorn (2004)

starting their activity. In order to help them, they need to provide entrepreneurial skills which are aimed to develop personal, organizational and financial skills needed in order to start a business. The activities include: developing a business plan (one of our criteria in accessing credit), problem solving, communication skills, goal setting, time management, stress management, managing and reducing costs, stock control techniques, etc.

However, SKI argues how it is essential to have a constructivist approach by building upon the skills of the street children (which are already numerous, as pointed in our chapter 1) and by focus on a peer training approach. Finally, Kobayashi (2004) warns to inform the participants that what they learn in business development training is not a promise of reward, but essentially a way for self-improvement.

d. Management-oriented training

The business plan being done, the child will need to know how to manage its new business. Here comes the notion of management training, which seeks to accompany the child in the challenges he/she may face in the management of its business. SKI argues that this can be done through some group discussions hold every two weeks.

e. Supporting services and financial services: a microfinance plus framework

The three dimensions highlighted above are necessary in order to enhance the effectiveness of the microfinance intervention, especially the microcredit component of our model. However, this adds considerable costs to our previous minimalist model and, hence, may impact negatively the program sustainability. However, without those services, “effectiveness” will be poorly achieved.

Therefore, the challenge is to achieve a good balance between **effectiveness** and **sustainability** by reducing the costs of provision. In order to do so, two options exist:

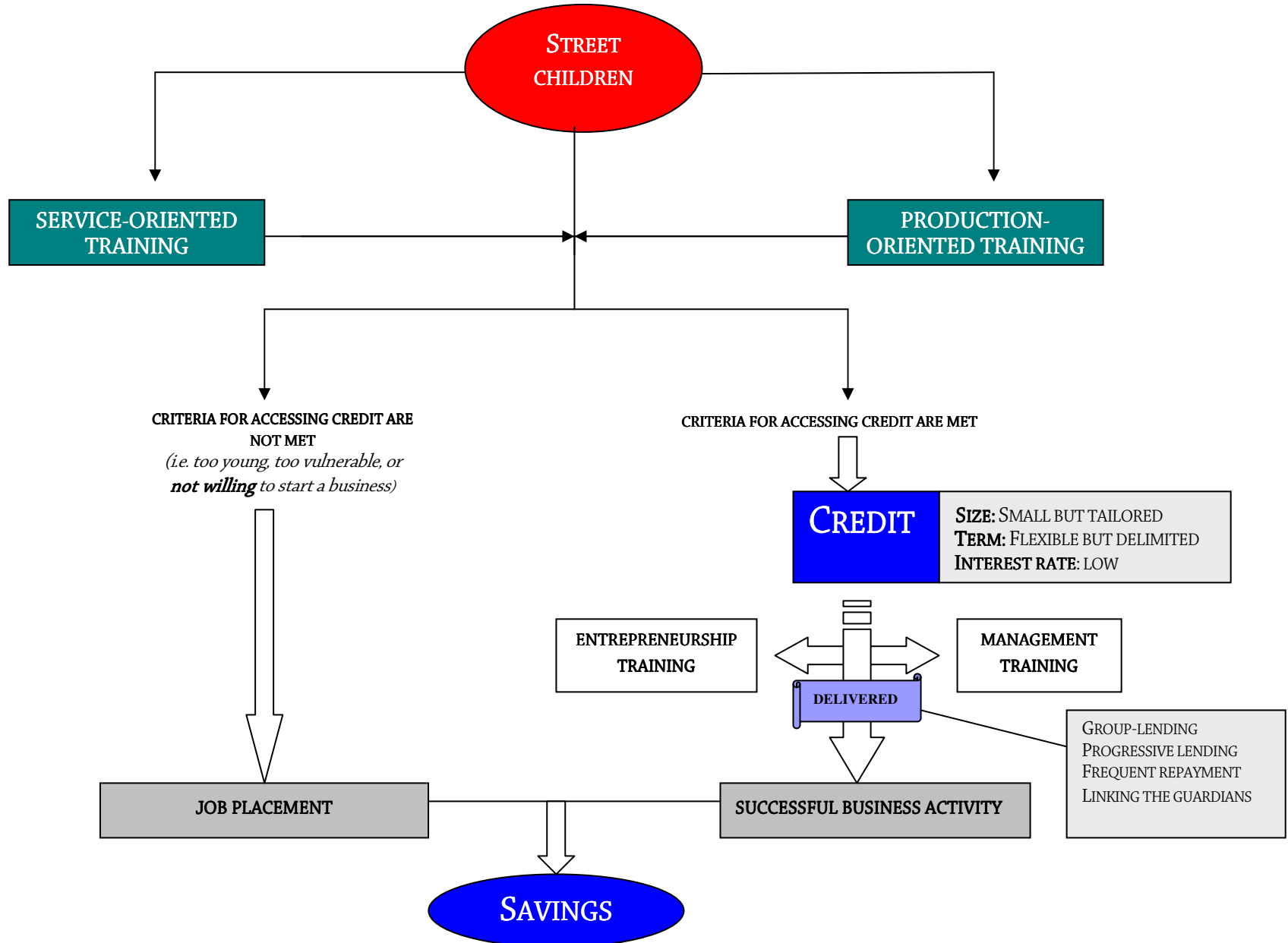
- ✓ **Partnerships:** to make a direct partnership with a specialized organisation providing vocational training, such as Underprivileged Children’s Education program (UCEP) in Bangladesh.
- ✓ **Mentorship:** to allocate (as does the children’s development bank) an informal mentor to the child, who will provide him/her the entrepreneurship and management training. However, this solution may curtail effectiveness if the mentor is not entirely committed.

Finally, it has to be noted that two barriers must be settled in order to avoid an error in targeting

- ✓ **For production and service training:** not all street children may need training; the less vulnerable ones may still have the possibility and the willing to integrate formal education system, and this has to be encouraged as it is a way to find a formal work in the future (although this concerns a particularly minority of children)
- ✓ **For entrepreneurship and management training:** not all the children are entrepreneurs, some may only want and have the capacity to get employed; but the important point therefore is to provide them with saving services in order to maximize the returns from their jobs.

Our following page illustrates our new microfinance framework, which integrates the vocational training components.

FIG. 3.2.: A MICROFINANCE PLUS FRAMEWORK FOR STREET CHILDREN



2.3.3. Operational requirement: social services

Our first chapter outlined how street children, even if they have high capacities, are vulnerable, having therefore basic and urgent needs to fulfil first. Social interventions for street children are therefore aimed at responding to the various developmental needs of the street children.

As Judith Ennew points interestingly: *“You cannot ignore children who are in danger, frightened, hungry or ill because development philosophy says you should look for long-term solutions (...)”* (Ennew, 2000:100)

She completes this comment by comparing street children to “people” who are in a permanent emergency or disaster-relief situation. Indeed, as in the case of earthquake victims and refugees, they need immediate help, but this will be of maximum benefit to the street children if it is planned so that it will become part of a long-term development solution. In that regard, microfinance can be a valuable long-term development solution, but whose effectiveness will be limited if we do not integrate in our framework basic social services. Those services comprise generally: *health, nutrition, education, recreation, awareness, psychological counselling, legal aid, and advocacy and gender*, and are a kind of first aid. They are generally provided in drop-in-centres (DIC), where the child is given shelter (day or/and night) along with other social services (although night shelter must only be provided to the most vulnerable ones).

Although positive impacts may be numerous, Ennew (2000: 110) warns about one danger: dependency.

Moreover, as pointed in our section 2.1.3 (d), it can enhance the supply-driven demand, as families may have higher incentive to send their children to the streets in order to benefit from such services. The “solution” (if any) is a good targeting strategy, with clear criteria in the identification of street children, in order to avoid integrating in their programs children who may not need it urgently.

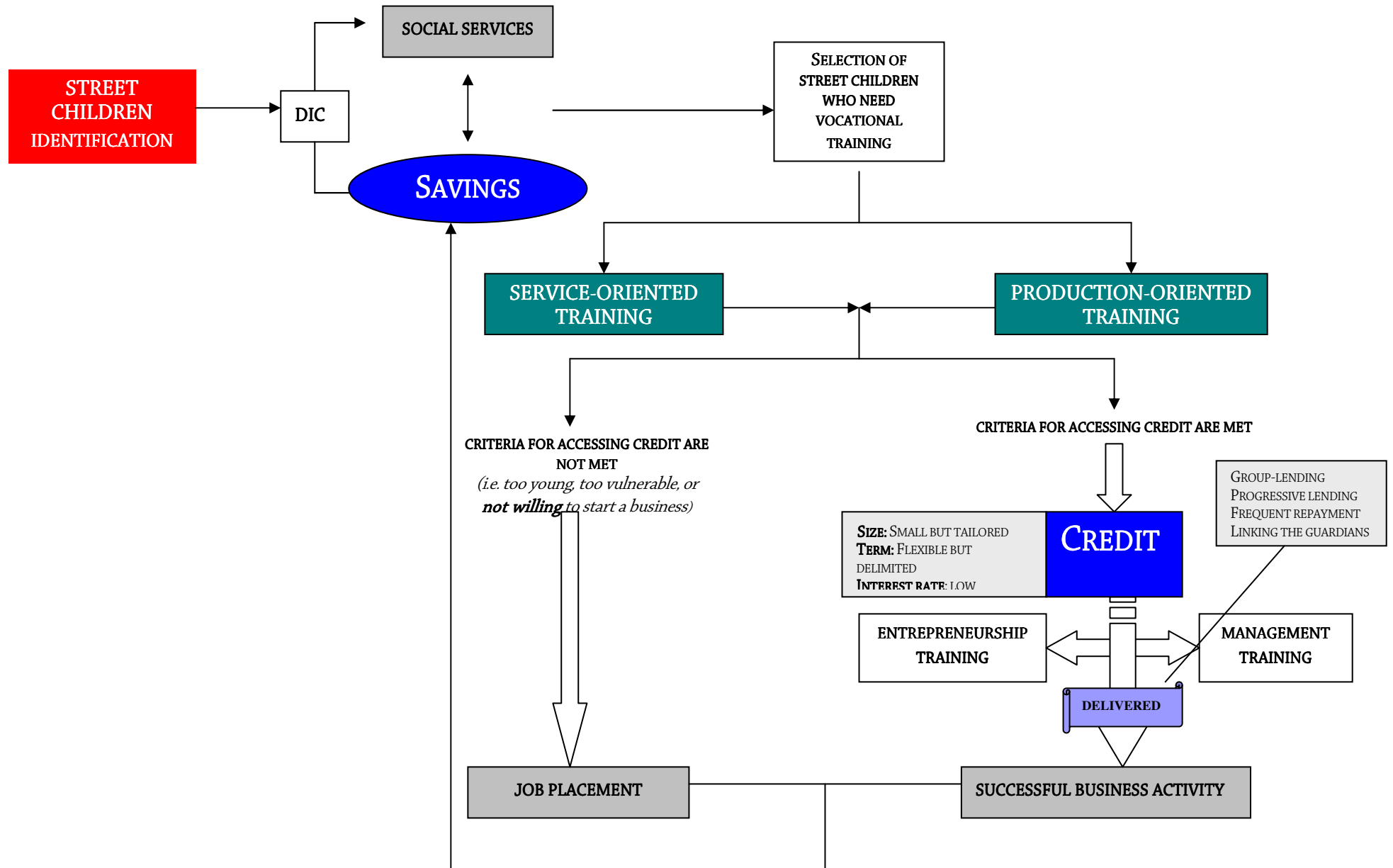
2.3.4. A comprehensive microfinance plus framework: Financial services, supporting services and social services nexus

Our previous point leads us to redesign our previous microfinance plus framework, by trying to integrate the social services in a logical and effective sequencing.

First, social services (i.e. “first aid”) must be a preliminary condition before providing vocational training and disbursing credit. Indeed, this is a way of meeting some of our criteria;

However, “saving” can be viewed as direct parallel service to the “first aid” solution. Indeed, the child, from the street, will move to the centre where he/she will be provided with basic social services along with the opportunity to save his/her tiny earnings. Moreover, a positive correlation between social services and saving will appear, as the more the child will be socially empowered, the more he will understand the need to save money. Then, after some time, the child will be provided with the opportunity to gain production or service oriented training, in order to move from his/her harmful or illegal working activity, and either be placed in a business, or either create his/her own business thanks to a credit provided to him/her. Then, with the money generated, the child will save a part and, little by little, sees his/her future in a better way. However, this transitory phase does not only need social services to be provided before, but also during the microfinance intervention, as getting money alone is not an end in itself. This calls therefore to modify our previous microfinance plus framework, by adding those social services to our model.

FIG. 3.3: A COMPREHENSIVE MICROFINANCE PLUS FRAMEWORK FOR STREET CHILDREN



2.3.5. Effectiveness, sustainability and provision model

When discussing “effectiveness” and “sustainability” in our section 2.2, we were pointing out how those two criteria need to be kept in mind whenever discussing microfinance for street children.

The comprehensive microfinance framework for street children we are proposing tries to meet at best those two criteria, by finding a system which increases the impact on street children, taking into account the limited amount of subsidies and the need therefore to minimize costs and to have a sustainable program. But as we have seen previously, even with the last criteria in mind, the holistic approach needed keeps the program at a high cost, keeping therefore difficult to reach financial sustainability and consequently a constant dependence on subsidies. So, at this stage, two questions need to be raised:

a. What is the added value brought by this new approach? In other words, why should a particular donor support such activity, comparing to a traditional one?

Since the street children predicament appeared in developing countries in the 80s, many NGOs tried to approach the issue by, first, relying on a paternalistic approach taking its roots from the Western model of childhood, where the objective was to “protect” the child and to provide only with emotional, physical and intellectual development services. The assumption behind this approach is the lack of responsibility of the street children, who do have nothing to say, but just to keep receiving services until they reach adulthood. But those street children, as pointed for instance in our chapter 2, do have high responsibility towards their families, and it is often for this reason that they are on the street. Witnessing this, some NGOs began to worry about the appropriateness of intervening in the street children life only by providing social services, and tried to help street children, usually engaged in hazardous work, to find a better survival strategy, by giving them training and finding jobs. Then appeared the third movement which, taking into account the necessity to provide training, did find inspiration in the microfinance movement which emerged in the 90s, and thought effective to add to the actual framework of intervention two components: “savings” and “credit”.

The added value of this new framework of intervention is structured around the notion of “*economic empowerment*” which tries to find solutions to a complex problem by relying first on the children themselves.

This new approach tries therefore to assist street children, whenever keeping in mind the necessity to give them tools which will improve their future. Among the various added value, we could say that:

1. By providing **saving**, the street child can meet his/her life-cycle needs, emergencies and opportunities whenever keeping him/her safe for robbery and getting involved in criminal activities, reducing as a consequence his/her vulnerability.
2. By providing **credit** and launching a successful business activity:
 - ⊕ The street child’ self-esteem and confidence will be increased
 - ⊕ The street child will be protected from hazardous street working activities
 - ⊕ The will be more able to raise a high income and to support him/herself as well as his/her family more efficiently
 - ⊕ The socialization process will be efficient, as the child would be perceived by his/her community as a responsible person.

Finally, we must recall that the effectiveness of this intervention can only appear by keeping a particular attention to the respect of each step, in order to avoid the supply-driven demand, as well as the mitigation of positive impacts.

b. MFI vs. YSO: Which provision strategy is the most sustainable?

The microfinance framework we are proposing is said to be effective (i.e. positive impact) and sustainable (i.e. minimizing cost), non regarding the organisation which is providing it.

However, as pointed out in our section 2.2.2, there is another component of sustainability which, if brought in our framework, can enhance the program sustainability: the “ability and commitment of the organisation to keep delivering the adequate services in the long-term”. Indeed, even if any organisation can, by adopting our model, create a positive impact on the street children, and in the same time minimizing its costs of intervention, we need to seek which type of provision strategy will be the most adequate one for guaranteeing these criteria.

From the provision side, we have, as pointed in the beginning, two potential actors: MFI and YSO.

From a MFI perspective, launching a successful microfinance program for street children alone and keeping it viable means three things:

1. Hiring additional staff able and committed to serve street children
2. Providing social services to street children
3. Providing vocational training to street children

From a YSO perspective, launching such a program means:

1. Changing its working philosophy, moving on to a subject-oriented approach.
2. Consuming time to the actual staff or increasing the number of staff needed
3. Providing training to the staff in order to in order to manage adequately the provision of financial services and to provide entrepreneurship and management training to street children.
4. Provide production or service oriented training

Therefore, we are in presence of what we can call a “*management dilemma*” where, on one side, we have an MFI which has an expertise on financial services (and sometimes training services) but no expertise at all on street children; on the other side, a YSO has the expertise on street children, but few (or no) expertise on microfinance. How can we therefore reconcile this dilemma? Keeping in mind our objective of street children well-being maximization, we would argue that two sustainable provision model can exist:

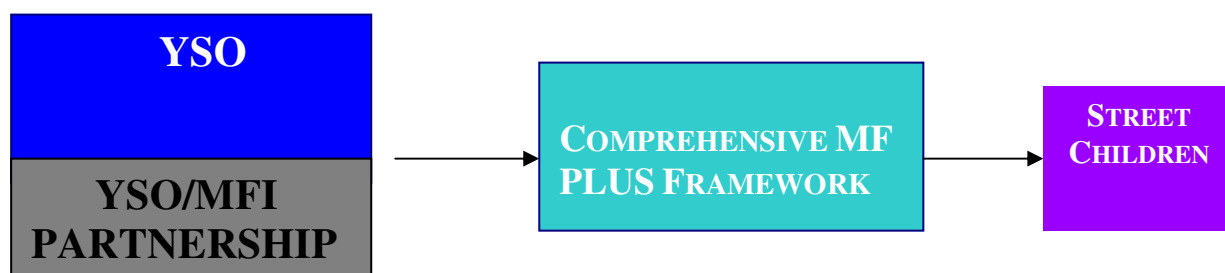
- ✓ **YSO focus:** our operational requirement implies that social services HAVE to be provided, otherwise the program will never be operational. As YSO do already provide such services, it makes more sense to initiate such activities in YSO, thanks to the economies of scale⁸⁶. Indeed, as their constraints are much in terms of staff, if the staff is well trained, the major costs disappear. The only high cost is the production and service oriented training, but outsourcing it can be a profitable solution. Given this, the more there will be subsidies, the higher will be the effectiveness. Second, it can be more valuable

⁸⁶ “Economies of scale” are related terms that describe what happens as the scale of production increases. They are different terms and not to be used interchangeably. (http://en.wikipedia.org/wiki/Economies_of_scale). Here, the input is the amount of subsidy, and the output is the effectiveness

in terms of economies of scope, as more street children can be reached for each dollar spent (as the YSO has already a “pool” of street children)

- ✓ **YSO/MFI partnerships:** Even if our previous suggest that it can be more sustainable for a YSO than for a MFI to launch such activity, partnerships can be, in our view, extremely valuable. It can take the form of a “capacity-building” relationship, where the MFI would help the YSO to design and deliver its products. Indeed, for an MFI, helping the poor may also mean helping those who serve the poor as well. Moreover, a particular element to consider is how gainful too can this partnership be for the MFI: as pointed by Hatch (2004) the youth of today are the adults of tomorrow. The street youth of today can therefore be the adults’ clients of tomorrow, if the organisation is closely linked to the YSO, and if the street children are well aware about that.

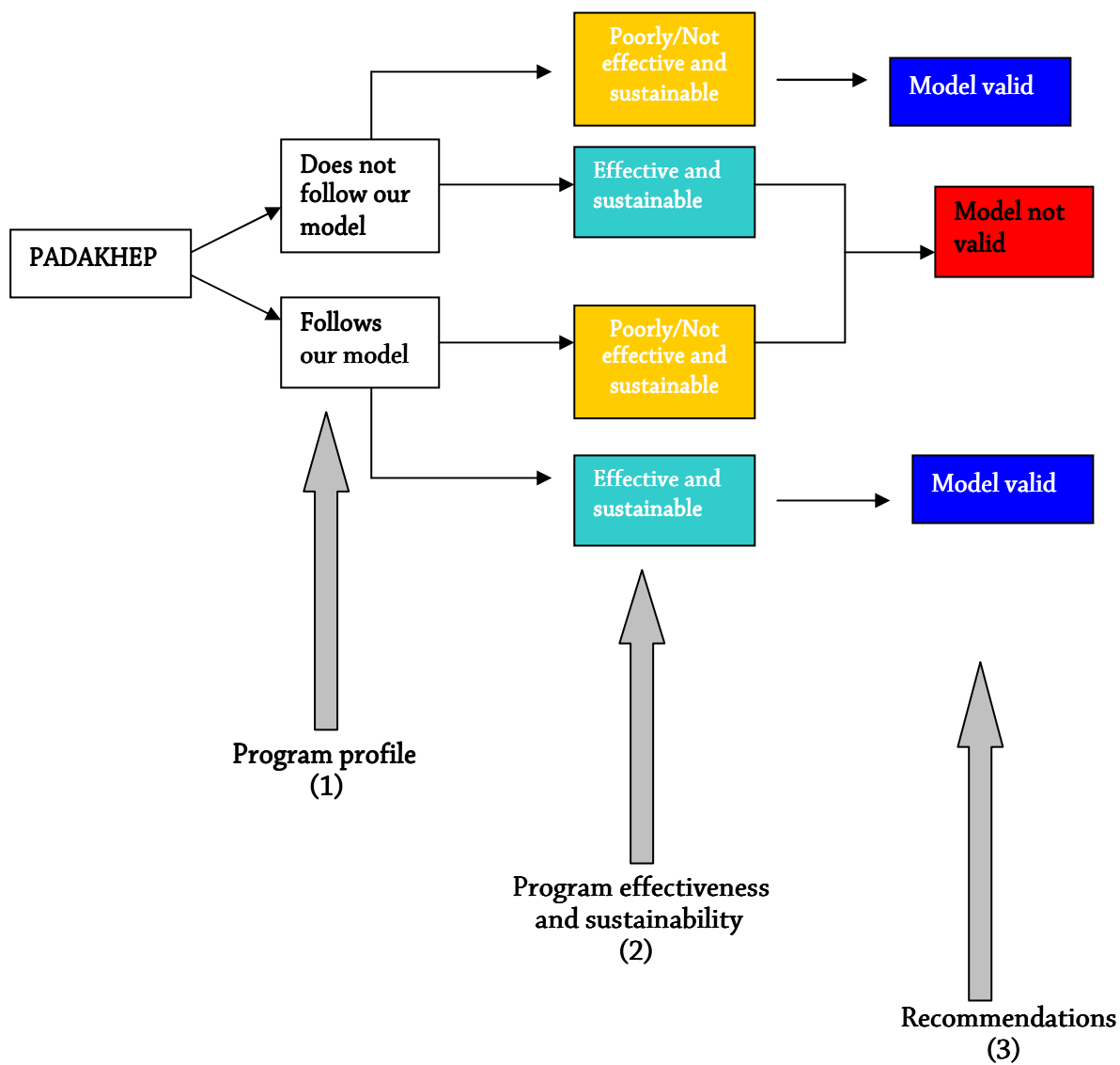
Fig. 3.6-Visual summary: our effective and sustainable MF for street children model



2.4. Case study: Padakhep Manabik Unnayan Kendra (PMUK)

Our case study has the objective to test our proposed model, by first analysing the program profile in order to assess whether the organisation follows our model; our second objective will be to analyse the effectiveness and sustainability of the program in order to determine and then to move on to the validity of our model, and make recommendations. Our approach can be schematized as followed:

Fig. 3.7: Case study framework



2.4.1. Program Profile

A. Padakhep: an introduction

1986. Poverty is striking Bangladesh, a country of 130 million inhabitants situated in South-East Asia. Revolted by the alarming situation he was witnessing, Iqbal Ahammed, former worker at the World Bank in Dhaka, decided to leave his office and to go to the field : he created, in a small remote village of Barisal district, in the South of the country, his organization: Padakhep Manabik Unnayan Kendra (PMUK). The initial objective of Padakhep was to find a solution to the hardship of life of the villagers, and was especially working on the field of agriculture, building awareness sessions and mobilizing the villagers to take their destiny in their own hands.

Now, twenty years have passed, and Padakhep is present in 166 locations of 53 districts, both in rural and urban areas of the country⁸⁷. There, Padakhep is implementing various development programs and projects, within a single mission: to create self-financed, self-employed and self-empowered communities with increased capabilities by providing need based services and supports.

To do so, Padakhep follows a holistic development approach (HDA), and its interventions are centered in the following sectors: *Microfinance; Agriculture; Health; Education; Street Children; Enterprise Promotion; Gender; Advocacy and Training*. Its strategy is characterized by a bottom up approach, with an emphasis on beneficiaries' participation in all stages of the project. The following figure illustrates Padakhep's HDA.



Source: <http://www.padakhep.org>

⁸⁷ Bangladesh is divided in 64 districts, each district being divided in..... Dhaka is the capital, and...

In order to achieve its missions, Padakhep relies on its principal strength: its management. Padakhep has actually more than 1000 workers all over Bangladesh, at different executive levels. The following table gives the distribution of the actual number of staff.

Sl No.	Staff Category	Number of Staff		
		Female	Male	Total
01	Policy Making Level	03	12	15
02	Mid Level Staff	15	58	73
03	Field Level Staff	356	676	1032
04	Support Staff	18	35	53
Total (2005)		392	781	1173

Source: Padakhep profile, 2005

The management structure of Padakhep is being illustrated in our next page. The first organ is the General Board, which consists of 21 members and which meets at least one time a year. Its mission is to approve the activities of the Executive Committee. Moreover, it does elect the members of the Executive Committee, which consists of 8 members: 1 president (whose role is to monitor Padakhep's activities), 6 members and 1 secretary. The role of secretary is being played by the executive director who is the executive chief of the organisation. He plans and designs the projects, prepares and develops the budget, designs the policies and implements all activities. He recruits, under approval of the Executive Committee, all types of staff. The existing management is therefore being run under the Executive Director leadership and is divided in two big divisions:

1. Program Divisions

- a. Education, child development and gender division
- b. Health, Population, Nutrition & Sanitation Division
- c. Agriculture & Marketing Division
- d. Microfinance division

2. Program Supporting Divisions

- a. Human Resource and administration division
- b. Finance and Accounts Division
- c. Research, Planning and Program development division
- d. Training Division
- e. Audit Division

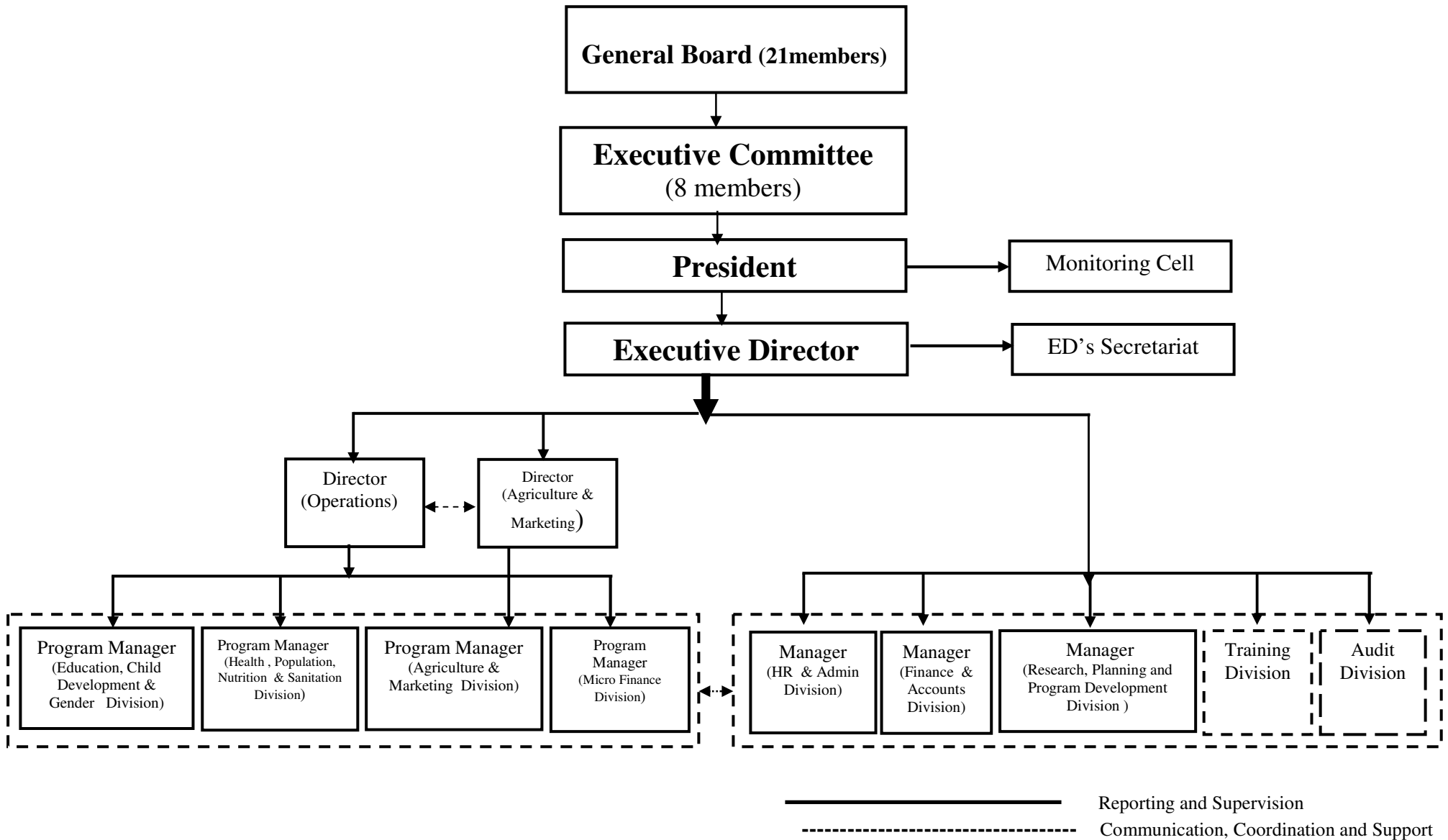
Apart from its staff, Padakhep relies on different partnerships in order to achieve its missions. Those partnerships are segregated into 3 categories:

1. **United Nations organisations** : International Fund for Agricultural Development (IFAD), UNICEF, UNDP and World Food Program (WFP)
2. **International organisations**: Department for International development (DFID), Asian Development Bank, Action Aid Bangladesh, CONCERN Bangladesh, CGAP/World Bank, USAID etc.
3. **National organisations**: Palli Karma Shahayok Foundation (PKSF)⁸⁸, Department of Agricultural Extension (DAE), Agrani Bank, Department of Non-Formal Education (DNFE), Grameen Trust, etc.

Finally, Padakhep is a member of different platforms, such as Forum for Participatory Education and Development, the Gender forum, the Credit Development Forum, etc.

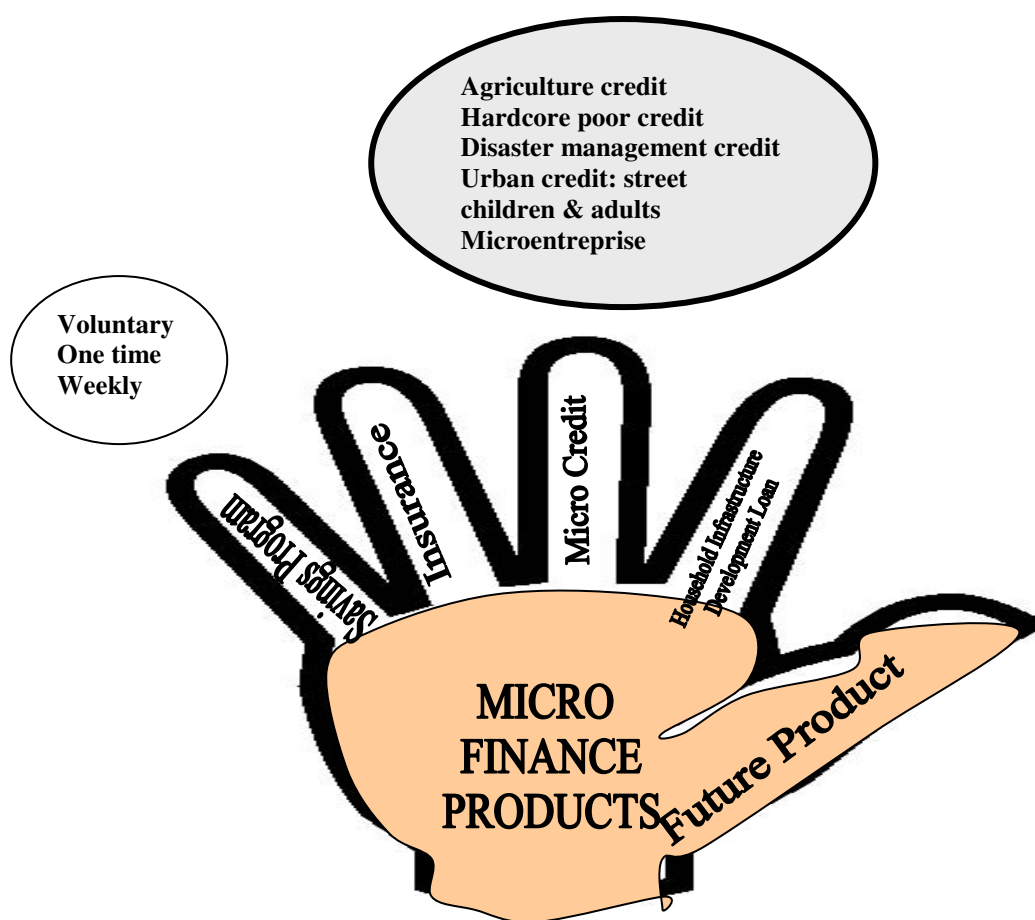
⁸⁸ PKSF is what is now known as an 'apex organisation', a parastatal involved in loaning funds to its partner organisations (POs) for on-lending as microcredit" (for a detailed profile see Hulme and Moore, 2005)

Organogram of Padakhep Manabik Unnayan Kendra



B. Padakhep and Microfinance

In the beginning of the 90's, the microfinance movement started its expansion, and Padakhep decided to do the same. In 1993, Padakhep launched a microfinance program which became, now, its major intervention: one of the "pillar" of the organisation, as Iqbal Ahammed likes to emphasize. As a starting point, they replicated the Grameen Bank model and, soon later, developed their own microfinance program. The main goal of the program is the strengthening and the empowerment of the poor. To do so, Padakhep chose to follow a holistic approach, providing financial services along with various other services, keeping a special emphasis on underprivileged women. This microfinance program is structured around 3 kinds of products: Micro Credit; Micro Savings and Micro Insurance. Here is a sample of their main products:



From Padakhep (nd (b))

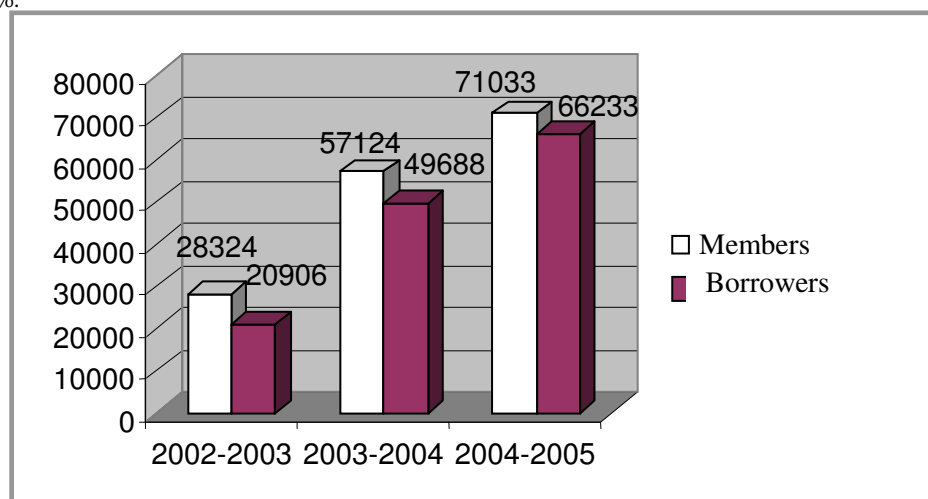
First, regarding microcredit, each product targets a particular segment of the poor population, as well as the less poor, with a particular emphasis on the extremely poor. The terms and conditions attached to their financial products depend upon the type of product. (see BOX) The size of the credit ranges generally from 2000 TK (30 US \$) to 10000 TK (150 US \$). The loan terms are of 1 year and Padakhep followed a weekly repayment strategy.

PRODUCT NAME	SERVICE CHARGE (%)
Rural Micro Credit	12.5
Urban Micro Credit	12.5
Livestock Credit	12.5
Hardcore poor Credit	9.2
Disaster Management Credit	1
Housing Credit	5

In order to deliver adequately its products and services, Padakhep has a network of more than 100 branch offices all throughout the country.

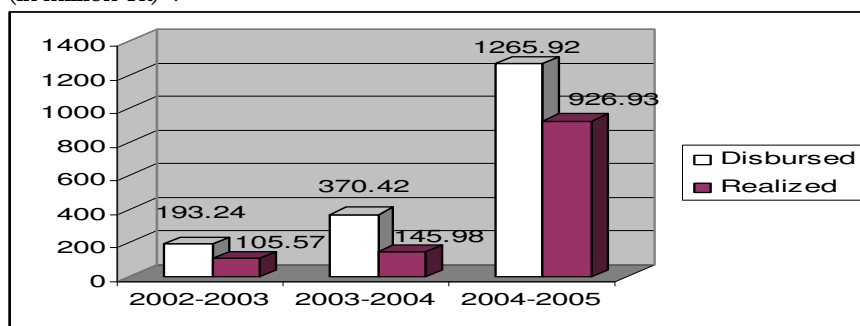
Concerning the delivery methodology, Padakhep first identifies the beneficiaries (i.e. the target population with socioeconomic homogeneity) and then organizes them into small groups, ranging from 15 to 20 members. They attend weekly meetings, deposit their savings, and discuss socio-economic issues. Padakhep observes the group's performance during a couple of months before providing them credit and other services (e.g. skill development training, nutrition services, farm input, etc). Every group member is entitled to the credit, the group acting therefore as a guarantor. Parallel to this group-lending methodology, Padakhep uses progressive lending in order to reduce its risks. Moreover, training is provided along with credit for income generating activities management, in order to guarantee a good investment and therefore a good repayment.

The microcredit program of Padakhep is in constant growth. The following figure gives the status of the members and the borrowers for the three last financial years⁸⁹. It shows that the MFI has experienced a growth of more than 100 percent between July 2003 and June 2004, and that the growth rate between July 2004 and June 2005 has been equal to 33%.



From Padakhep (2005)

The following two figures characterize Padakhep's cumulative loan disbursement and realization status for the last 3 financial years (in million Tk)⁹⁰:

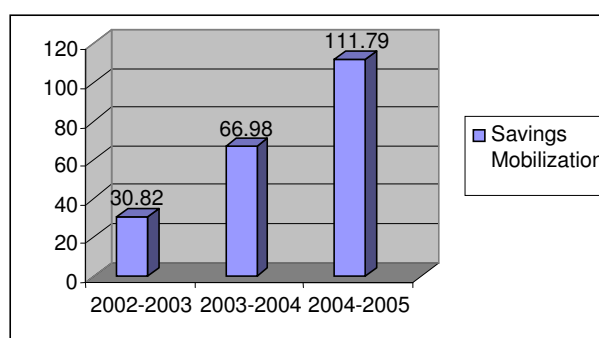


From Padakhep (2005)

⁸⁹ The difference between the total number of borrowers and the total number of members is one indicator of the additional services that are provided to the members (i.e. people benefit from various developmental services in their groups— such as awareness raising, etc – without taking a loan.

⁹⁰ From Padakhep (2005)

The savings scheme of Padakhep is a very important part of their microfinance activities and the savings mobilization is increasing over time. The following figure gives the savings mobilization (in millions TK) distribution for the three last financial years.



From Padakhep (2005)

Finally, Padakhep is also running a microinsurance program since 2000, which consists of a welfare fund. The beneficiaries deposit, before disbursing the main credit, a charge of 1% in the Welfare Fund. This amount can not be refunded during the beneficiary's lifetime, but only in case of any member's death. This fund has now accumulated more than 10 millions Taka.

We need also to mention that Padakhep has developed a detailed computerized Management Information System which allowed to keep data for the majority of its microfinance projects.

Comparing Padakhep to the Bangladeshi Microfinance industry, we could say that it is a middle range MFI. Indeed, the microfinance market in Bangladesh is dominated with the big four: Grameen Bank, BRAC, ASA and Proshika. This small table illustrate their main characteristics:

Organisation	Number of Members	Number of Borrowers	Savings	Cumulative Disbursement	Outstanding Loan Amount
	Million		Million US\$		
Grameen Bank	3.6	3.5	194.1	3,372.5	295.0
BRAC	4.5	3.8	114.4	2,014.2	219.9
ASA	2.7	2.5	47.3	1,607.3	232.1
Proshika	2.8	1.5	24.3	464.4	61.3
Total	13.7	11.4	380.0	7,458.4	808.3

Note: Exchange rate in June 2004: US\$1 = Tk60.36

From Zaman, (nd)

As Zaman highlights, "After the big four, the next largest NGO has 0.7 million clients and there are only ten NGOs who have more than 100,000 borrowers. The bottom line is that the majority of the MFIs are small (less than five thousand borrowers) and that the bulk of the access to microcredit is supplied by the four large MFIs".

So, Padakhep, with its almost 70 thousands borrowers, can be characterized as a top medium Bangladeshi MFI; and, if following the same growth pattern than the previous financial year (i.e. 33 percent), could enter the top 15 MFI in Bangladesh in 2 years.

C. Padakhep and street children

"There is one population neglected by everybody and who needs our close attention: the street children"

(Iqbal Ahammed, Executive Director of Padakhep)

Our chapter 2 has highlighted the disaster of street children facing Bangladesh. In 1998, Padakhep, witnessing this disaster, was wondering how to contribute to the well-being of street children. Having no previous experience on that field, they decided to launch an exploratory study in order to assess the street children' needs and especially their vulnerability regarding sexual transmitted diseases, particularly HIV/AIDS.

The conclusions of the report pointed out two main features:

First was the global vulnerability characterizing those children, especially regarding sexually transmitted diseases, as well as the lack of basic services needed to their development.

Secondly, the study team discovered that many street children were earning money through different income generating activities (IGA), but were facing two important constraints: first was the lack of a safe place in which to deposit their tiny earnings; and second was the lack of access to capital in order to start their own income generating activities.

Therefore, the report highlighted two main recommendations which designed the roots of Padakhep' future intervention strategy:

1. **Social interventions:** The need to address street children with various developmental services which target their basic needs (psychological counselling, medical care, recreational activities, non-formal education, etc.)
2. **Economic interventions:** The need to strengthen street children on the labour market and to reduce their vulnerability as child workers by providing them financial services, along with other economical interventions.

Following those recommendations, Padakhep started, the same year, a street children intervention program, with a special emphasis on STD/HIV/AIDS. As many street children had no landmark, a drop-in-centre (DIC) was first established in Mohammadpur area in 1998 and different developmental services were progressively provided. The panels of those social services includes many interventions, such as psychological counselling, health interventions, recreational activities and non-formal education and were financed thanks to Padakhep's own budget and the assistance of Action Aid Bangladesh.

However, Padakhep considered that service provision and savings facilities alone can not help children reintegrate the society and stand "on their own feet". The NGO launched therefore, in a parallel process, an economic insertion intervention.

After benefiting from basic social services and completing their non formal education, street children were provided with vocational training, which is twofold:

1. **In house vocational training** (i.e. in the DIC): trainings on tailoring, embroidery, boutique, packet making, candle making
2. **Formal training** (through two formal training centres of Dhaka city: Dhaka Ahsania Mission and UCEP-Bangladesh Training Centre): trainings on electrical works, pipe fitting, plumbing, beauty parlour activities etc, in order to ensure a safe job placement rather than hazardous jobs.

After finishing their vocational training, street children are sent to shops, organizations, or firms.

However, this program was facing a major constraint. Indeed, many children who followed this training did not want to work as employees – as pointed in our chapter 1, this may be due to the harassment faced by their previous employers – and some expressed their desire to run their own business. But to be able to do so, a capital was needed and no access was available to them. Having at this time 5 years of experience in microfinance all over Bangladesh, Padakhep decided to lend them some money as a pilot project, and to analyse the success and effectiveness of such scheme.

From 1999 to 2000, only 25 children received credit. This small number was due to the newness of the project and the relative lack of funds. To expand this program, Padakhep needed the assistance of a donor. It is in that context that the NGO applied, in 2000, to the pro poor innovation challenge launched each year by CGAP –Consultative Group to Assist the Poor (CGAP/World Bank). The proposed activity was to open a Credit Branch Office for street children in Dhaka city. Thanks to the innovation of the project, Padakhep was selected among the winners and was awarded, in July 2001, US\$ 50,000.

In the same process, Padakhep got the assistance of other partners which allowed the expansion of its activities. The main partner organisation is the UNDP, through the ministry of Social Welfare. Indeed, Padakhep is one of the nine partner NGOs engaged in implementation of the ARISE program (Appropriate Resources for Improving Street Children's Environment), since April 2000. Thanks to this support, Padakhep has been able to create two more drop-in-centers in Dhaka city (in Mirpur and Kawran Bazar area), allowing therefore a deeper outreach.

Here is a listing of all their projects targeting street children, as of January 2006:

Sl.No	Name of the Project	Donor Agency
1	Appropriate Resources for Improving Street Children Environment (ARISE)	UNDP through MSW, DSS
2	An Innovative Advocacy Efforts Against Discriminatory Application of Laws of Women and Children in the Slum Area in Dhaka City	USAID through AED
3	Eradication Hazardous Child Labor in Bangladesh (EHCLB)	USAID through the Ministry of Labor and Employment
4	An Intervention Program for the Street Children on STD/HIV/AIDS	Padakhep own fund
5	An Intervention Program for the Street Children who are Most Vulnerable to Commercial Sexual Exploitation.	CONCERN Bangladesh
6	Action Against Trafficking and Sexual Exploitation of Children (ATSEC)	USAID through ATSEC Bangladesh Chapter

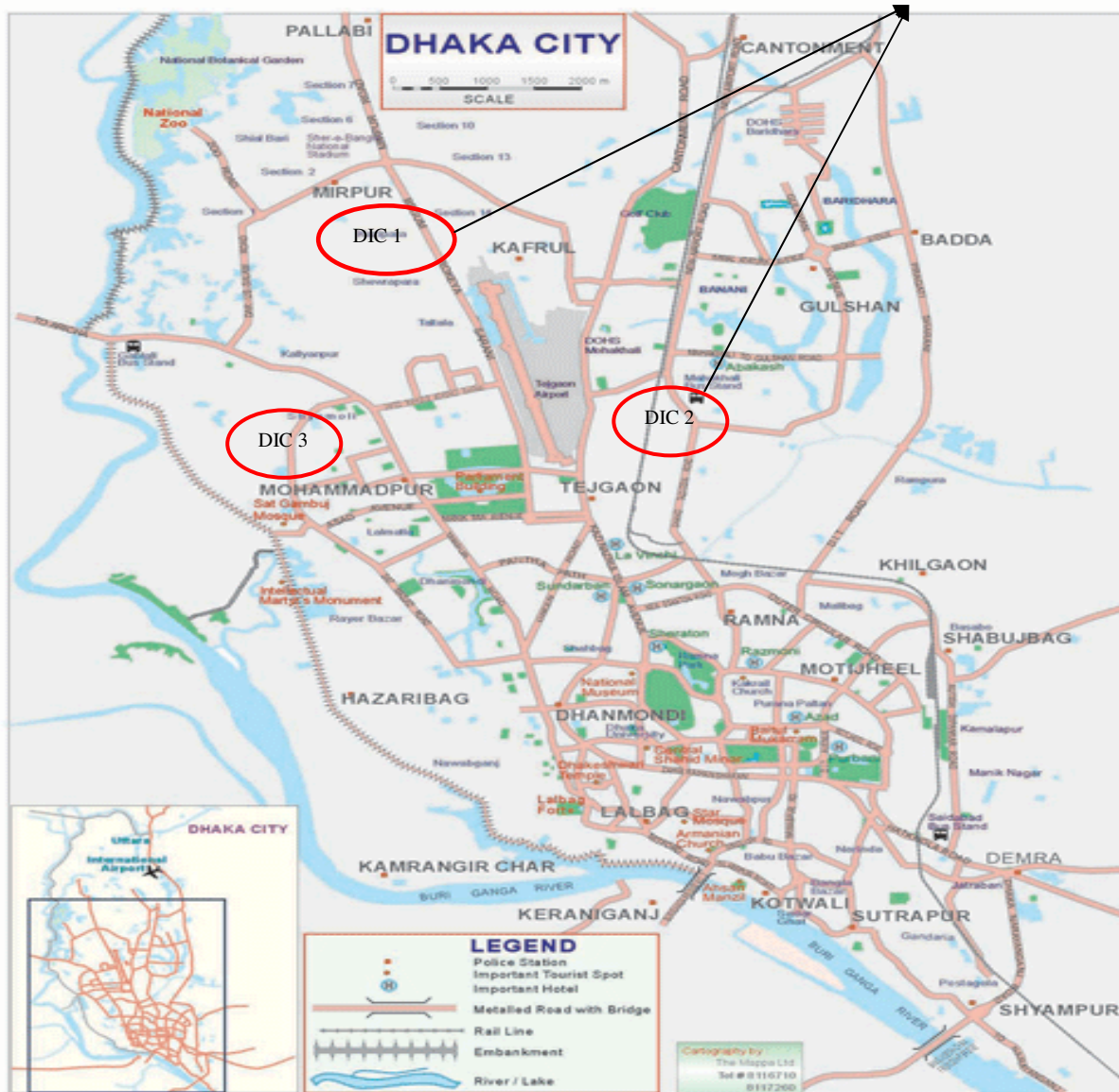
From Padakhep (2005)

Until now, Padakhep has delivered its services to approximately 15 000 children, through 3 drop in centres, 15 satellite centres, and 60 Centre based Schools/Open Air Schools.

Padakhep provides all those services through its 3 drop-in-centres: one in Mirpur area (DIC 1); the second, DIC2, in Kawran Bazar (Tejgaon area); and the third, DIC 3, in Mohammadpur area (near Padakhep head office).⁹¹

⁹¹ The numbers attached to the DIC have no link with their creation date.

DIC under ARISE



<http://www.discoverbangladesh.com>

This map indicates how far those DIC are from each others. However, in terms of proximity with Padakhep head office, DIC 1 is better placed than DIC 2. But the latter is based in a particularly sensitive pocket area of street children, because it is close to a vegetable and a fish market, and to one of the most luxurious hotel of Dhaka city (Sonargaon).

The following tables and figures indicate how many street children have transited through those DIC from January to December 2005 (classed by category).

Remember...

Category 1 SC – work and live on the street day and night without their family

Category 2 SC – work and live on the street during the daytime and return to their family at night

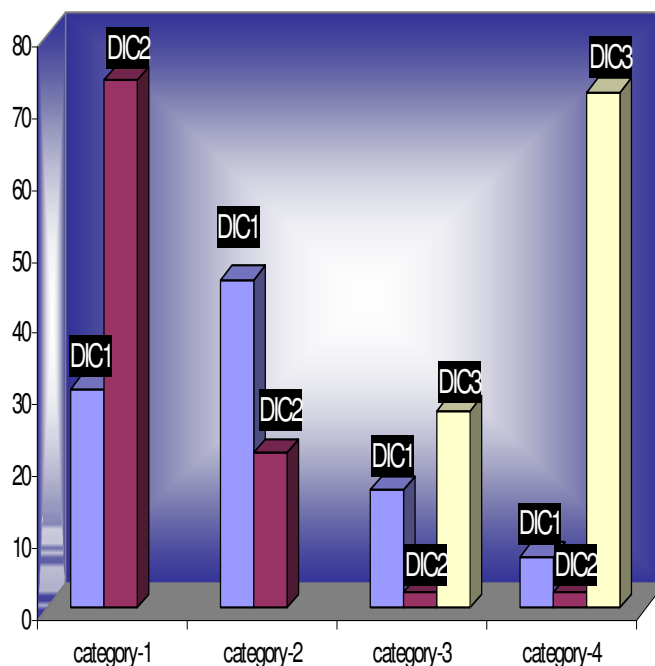
Category 3 SC – work on the street during the daytime and return at night to relatives

Category 4 SC – work and live on the street and return to their family

DIC1- Mirpur	Number of SC	Percent
Category -1	52	30,6
Category-2	78	45,9
Category-3	28	16,5
Category-4	12	7,1
Total	170	100

DIC2- KawranBazar	Number of SC	Percent
Category -1	136	73,9
Category-2	40	21,7
Category-3	4	2,2
Category-4	4	2,2
Total	184	100

DIC3- Mohammadpur	Number of SC	Percent
Category -1	0	0
Category-2	0	0
Category-3	253	27,7
Category-4	662	72,3
Total	921	100,0

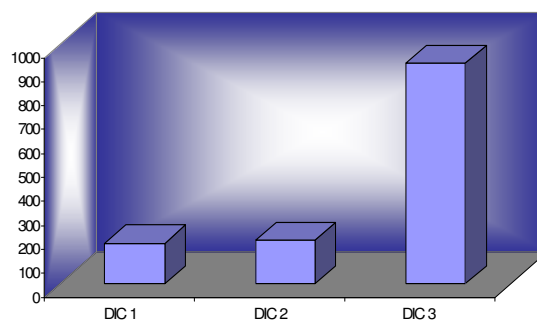


Analysed from Padakhep SPSS database

We see that DIC-3 (Mohammadpur) has a majority of category 3 and 4 street children, i.e. children who are living either with their parents or with some members of their families.

Regarding DIC-1 and DIC-2, things are a bit different. Indeed, DIC 2 has a majority of category 1 street children (i.e. the most vulnerable), and some children of category 2. DIC 1 (Mirpur) is largely dealing with category 2 street children, but has a larger “mixture” of categories than the other DIC.

Another interesting fact is the total number of street children enrolled in each DIC. DIC Mohammadpur has enrolled 72% of all children enrolled in Padakhep. This is due to many reasons. First, we must recall that DIC 1 and DIC2 is part of ARISE project (UNDP). This project emphasizes the most vulnerable children (i.e. category 1 and 2) and provides also night shelter.



DIC Mohammadpur has enrolled more street children, but on a less permanent basis as it does not provide night shelter. Moreover, as pointed out by Ms. Farhana Prity Islam, the program officer of Padakhep's child development division, the proximity to slums is one major factor explaining this high enrolment, as DIC Mohammadpur is welcoming children from 4 slums areas.

Regarding gender, the majority of street children enrolled during this year are boys. Here is the distribution of boys and girls among the 3 DIC.

	DIC 1	DIC 2	DIC 3
Boys	53 %	86%	67%
Girls	47%	14%	33%

Combining all these percentages, we find that 69% of the children enrolled are boys, and only 31% are girls. As pointed by Prity Islam, this small number may be due to the fact that Padakhep stopped providing night shelters to girls, as this has created some problems (between boys and girls) before.

E. Padakhep and microfinance for street children

As mentioned previously, Padakhep started its microfinance for street children program in the beginning of its activities with street children with a first focus on savings. Then, in 1999, credit was offered but the program was still small. Its expansion started with the CGAP's award fund in July 2001. The US\$ 50,000 received has been allocated as followed:

Activities	Amount in US \$
Revolving Loan Fund	38,000
Skill Development training	3,000
Food Supplementation for street children (2 years)	3,000
Staff Development Cost	3,000
Logistic support	3,000
TOTAL	50,000

This donation allowed a branch to start in *Mohammadpur* area, at 300 meters from DIC 3. This credit branch had double objectives: to provide street children with financial services, and to be the trigger of the urban microfinance program.

First, savings and credits facilities were **centralized** in the branch. However, as it was not very convenient for the children (which had to move from the DIC to the Branch office in order to deposit or collect their money, and then coming back to the DIC for other activities), and desiring to give the best incentives to them to save a maximum, the system was decentralized and the **savings facilities** transferred to the DIC in July 2004. However, this decentralization was partial. Indeed, credit facility keeps being managed by the branch.

When interviewing the staff about the reason(s) behind this, all pointed out the fact that they did not want to be in charge of credit services because they want to keep good relations with the children; and managing credit may create some tensions between them and the children.

This microfinance program, based in *Mohammadpur* and partially linked to the branch, can be characterized as the “formal microfinance for street children program”, and even if based in *Mohammadpur*, the credit facility was accessible to all street children from the other DIC.

However, a problem appeared. Indeed, because of the long distance separating DIC 1 and DIC 3 from the branch office, children from those DIC had difficulty to come there in order to take a loan. Some staff members were first doing that for the children, but this was taking too much of their time and was not convenient at all.

Two solutions appeared to the DIC managers. First was to keep credit only for children of Mohammadpur area, but this was unjustified (and even unjust) as the demand for credit of other children was quite high.

Second was to try to offer financial services to the children and to manage it “as best as they could”, the revolving loan fund being taken from other budgets. This led therefore to the progressive creation of an “informal microfinance for street children program, based in the DIC and without any link with the branch office

Our two next sub-sections are aimed at highlighting the main characteristics of these formal and informal programs.

▪ **Formal program characteristics**

Regarding the formal program, children are first organized in “groups” (called “*samity*” in Bengali). As part of a group, children can then benefit from the two financial products offered to them by Padakhep: savings and credit.

However, when discussing a bit deeply with Padakhep’s management staff, we found that the group structure was not having a “real” function in the microfinance program. Indeed, children do meet in groups for awareness sessions, but do not discuss and manage savings and credit in group.

After being part of a group and if interested to enter the microfinance program, children must pay 5 TK (\$US 0.05) as a registration fee to receive their savings passbook. After, they begin to save (in the DIC) and each transaction is being recorded in their passbook. In a parallel process, the DIC staff records those data in a register book for administrative reasons.

Padakhep has two types of savings products in their portfolio:

1. **Voluntary savings:** the children deposit and withdraw any amount of money “at anytime” (however, not possible after the staff leaves the office, i.e. 5 pm)
2. **Weekly savings** are compulsory savings. When the child receives a credit, he has to save at least 5 TK a week.

Padakhep was providing, until June 2005, 7% interest on their savings. They are now providing 6%.

As regards to credit, the approach is slight different from conventional credit operation. Considering the risk of this operation, Padakhep checks some criteria before disbursing the credit:

ELIGIBILITY CRITERIA

- Attendance of the child? (day and night time)
- Do they save money regularly?
- Did they pay instalments of their previous credit?
- Are they aware of the rules and regulations of the organization? Do they see their future IGA as profitable?

If the child meets those criteria, the credit is disbursed. Regarding the loan sizes, it does generally range from 1000 TK to 5000 TK. Generally, loan repayment time is 1 year, but many children repay it after 6 months and children return the loan fund with 10% service charge a year. The following table illustrates the process for a 6-month term credit:

Credit Amount	Types of installments	Amount of Service Charge	Total	Number of installments	Amount of installment	Amount remaining
1000	Weekly	50	1050	23	46	38 Tk
2000	"	100	2100	23	92	76 Tk
3000	"	150	3150	23	138	114 Tk
4000	"	200	4200	23	184	152 Tk

Children then invest the money in different income generating activities like vending tea, flower, dry food stuff, run small grocery hawking, shoe shining, etc.

However, one of the core elements of the formal microfinance program for street children is the linkage with the guardians of the street children. Indeed, the beneficiaries of the formal program are children of category 3 and category 4, which means that all of them are living in slums with their family or relatives. Considering this point, Padakhep chose to link the guardians of the street children who were too young to benefit from a credit, hoping that the benefits of the credit will flow from the guardians to the street children. The children concerned by this form of credit were aged between 8 and 12 years old. When the guardian wants a credit, the DIC refers him or her to the branch. The guardians can get from 1000 to 5000 TK, and even more, depending on the cost of his/her business project.

The following table summarizes all the products being offered by the branch.

Product Name	Amount (TK)	Term	Service charge	Eligibility criteria
Street Children & Guardians	1000-5000	1 year (46 weeks)	10% a year for the SC 12.5% a year for the guardians ⁹²	see supra
Urban microcredit	5000-20000	1 year	12,50%	Poor people (slums area) ; not necessarily the guardians
Microenterprise	20000-200000	1 year	12,50%	Business men

⁹² Since July 2005 before the rate was at 15%.

▪ **Informal program characteristics**

The informal microfinance program, managed by DIC Mirpur and Kawran Bazar, has its own characteristics.

The savings facilities are also centre based, the children depositing their money whenever they want (here too, up to 5 PM). Concerning interest rates, DIC Mirpur is providing an interest of 7% on deposits, whereas DIC Kawran Bazar is providing no interest. The recording system is different from the one of Mohammadpur. Indeed, children do not have a personal saving passbook. As explained by the DIC managers, children did not want to pay 5 TK for a passbook which will have a high probability to be lost in the street. So, the recording is being made in a global register book by the register officer.

Regarding credits, the two DIC are managing it with their own funds (i.e. with the money taken from vocational training budgets). The terms and conditions are different:

- DIC Mirpur is taking 10% a year of service charge on the loan amounts; DIC 2 (Kawran Bazar) is providing free interest loans. The loan conditions are quite “abstract” and rely mainly on the way staff perceives the children. This whole issue will be discussed in our next section.
- Concerning the loan amounts, DIC Mirpur provides the same range of loan amounts than the formal program (i.e. from 1000 TK to 5000TK), whereas DIC Kawran Bazar is providing much smaller loan amounts, as those loans are more related to seasonal business creations rather than long term business.

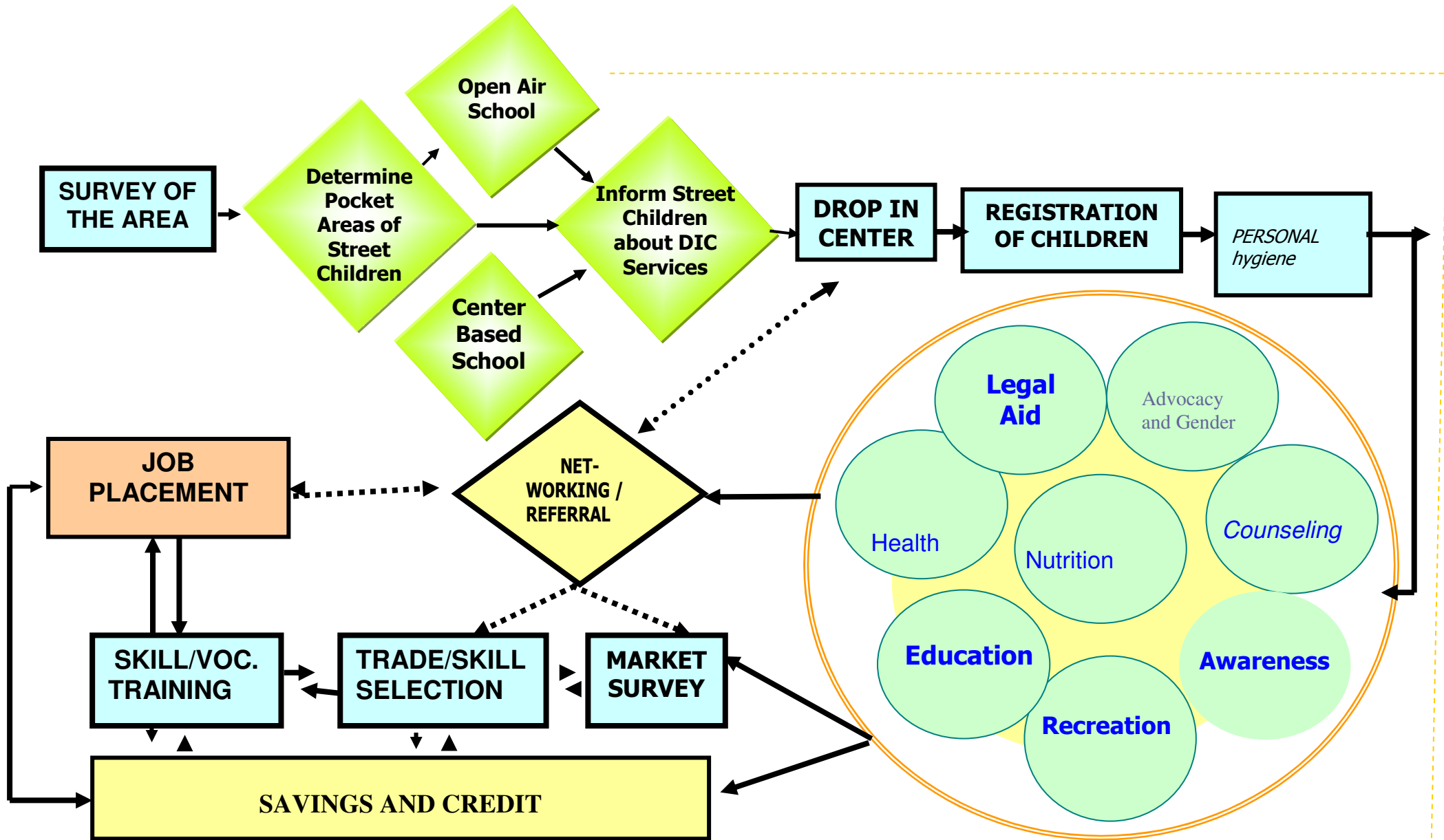
Therefore, we could say that DIC Mirpur program has quite similar characteristics than the formal program, the only differences being the passbook for savings, and the independence towards the credit branch for providing credit.

▪ **Microfinance for street children program and our comprehensive microfinance plus framework**

Seemingly, Padakhep follows our comprehensive microfinance plus framework: they provide financial services, vocational training and social services. However, this statement is rejected if we take a closer view on each component and their relationship. First, financial services are provided in an unorganised and differentiated way. First, the product design is inadequate and varies among DIC. Second, the eligibility criteria are either incomplete (for the formal program: no connection with vocational training), either abstract or inexistent such (for the informal program: no clear criteria). Moreover, the credit disbursement is poorly linked to vocational training.

The following figure does illustrate Padakhep’s holistic framework, and highlights an unclear flow of activities regarding savings, credit and their link with vocational training.

SUMMARIZING PADAKHEP STREET CHILDREN INTERVENTION
(from Padakhep, nd (a))



2.4.2. Program Effectiveness

Now that we know the profile of Padakhep's microfinance program, and that we have highlighted that this does not follow our model, we need to move to our second step of analysis, namely the program effectiveness.

In order to be rigorous and complete in our analysis, we will evaluate both the formal and the informal programs, by trying, for each of them, to highlight the effectiveness of financial services provision.

1. Methods

In order to evaluate the effectiveness of the intervention, we practiced individual in-depth interviews. As pointed in our methodology section, the children who did receive a loan were selected from the focus group discussions. In total, we proceeded to 19 individual in-depth interviews, among the 4 categories of children in the three DIC. The finality was not to make a comprehensive impact assessment, but just to capture the diversity of impacts.

2. Research questions

⊕ Regarding savings

Our demand analysis underlined that street children need savings in order to better plan their personal and/or family future expenditures which are of three kinds: life-cycle, emergencies and opportunities.

As a consequence, a saving program will be effective if it helps them accumulate large lump sums of money in order to meet those future expenditures. In order to do so, a saving scheme must be reliable, convenient and flexible in order to attract street children to set-up saving deposits. This statement leads therefore to ask three questions whenever analysing the effectiveness of Padakhep' street children saving scheme:

- 1. Do street children use the saving services made available to them?**
- 2. Does Padakhep program help the children accumulate large lump sums of money?**

Those two questions will enable us to analyse whether Padakhep program provides reliable, convenient and flexible deposit services to street children.

⊕ Regarding credit

Our demand analysis highlighted that some street children do need credit for their own income generating activities (IGA) or for their families IGA. The question to be addressed in terms of effectiveness measurement is whether access to credit has protected the child from hazardous economic activity and gave him/her the opportunity to launch a successful business.

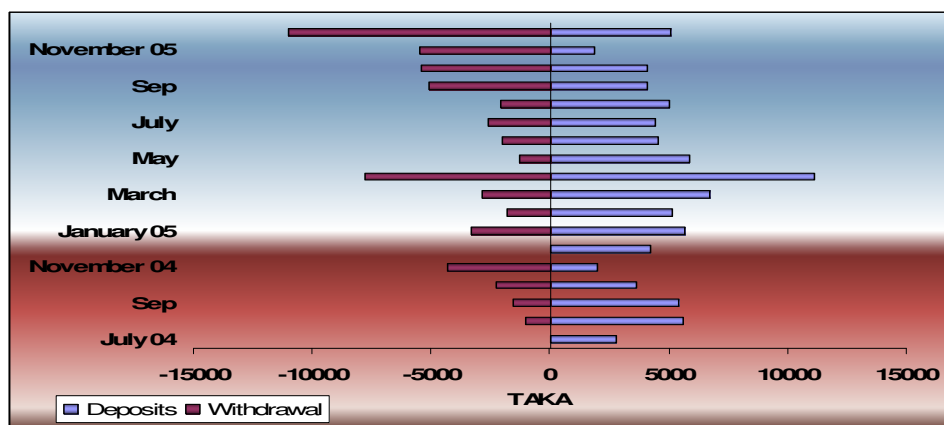
3. Data analysis

3.1. Do street children use savings services?

Shreiner (1999) points out an interesting thing: “if they (customers) do not use it (saving services) repeatedly, they must be doing better elsewhere. For customers, good performance is measured by repeated use”. This means that if street children do not use savings services made available to them, the program is simply not matching their demand. Let us therefore analyse it for each of the DIC.

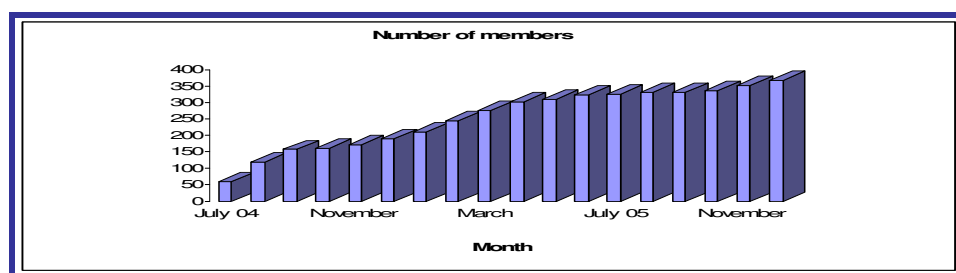
A. DIC Mohammadpur (FP)⁹³

In order to assess whether street children are frequently using savings services, we need to make a zoom on the total saving deposits and withdrawal. The following table shows monthly deposits and withdrawal at the DIC from July 2004 to December 2005⁹⁴.



It demonstrates that street children use very actively the saving scheme, deposit and withdraw money whenever needed. This is a clear indicator of how street children value those services.

The program accounted, in December 2005, a total of 381 members (including 53 guardians) and this number has been in constant growth since July 2004 (a growth of 157%, from 60 to 381 members).⁹⁵



⁹³ FP means formal program.

⁹⁴ As pointed in our program profile, savings services have been decentralized (from branch to the DIC) since July 2004. The DIC is therefore keeping the total data since this date.

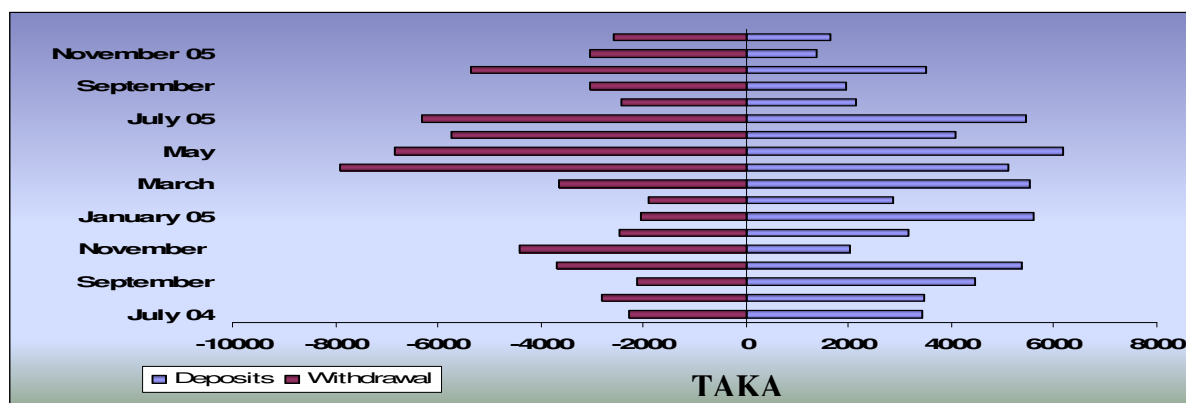
⁹⁵ A « member » is different from a « saver ». If a person expresses his/her interest to enter the saving program, Padakhep “opens a saving account”; but this person may start saving some months after. So, all members do not deposit money; but it show that they value such services.

Those two indicators underscore how street children value saving services. Moreover, this satisfaction is highlighted further, qualitatively through our different participative sessions, where children pointed out how useful and needed was this service for them.

B. DIC Mirpur (IFP)⁹⁶

Street children of Mirpur do also use savings services made available to them. The following figure does illustrate it but tends to show that, even if children deposit and withdraw money whenever they want, the withdrawal seems to be higher than in Mohammadpur DIC. Indeed, the total deposits between July 2004 and December 2005 has been equal to 67,360 TK (990 US\$) and the total withdrawal equal 68616 TK (1010 US\$), which leads to a loss of 1256TK (20 US\$). This deficit is, of course, due to the interest rate of 7% provided to street children on street children deposit accounts.

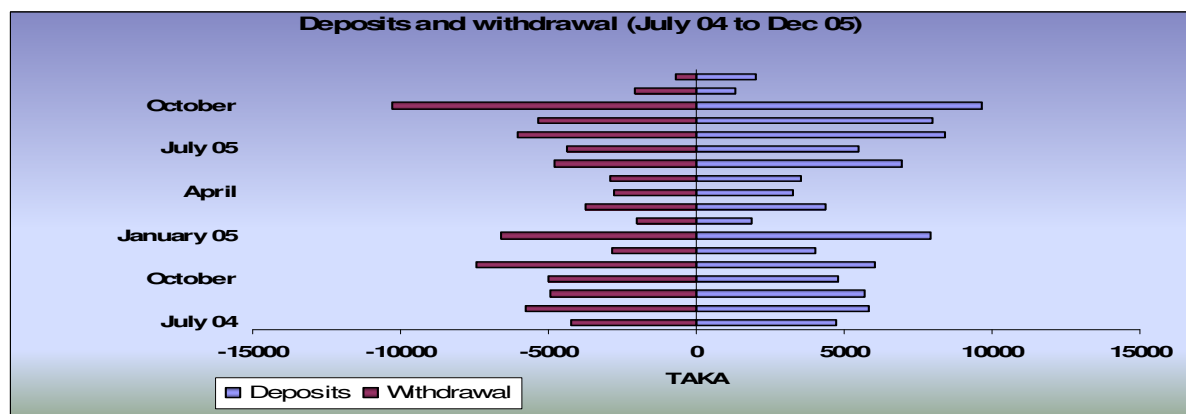
Deposits and withdrawal (July 04 to Dec 05)



C. DIC Kawran Bazar (IFP)

This program is also attracting savings, children depositing and withdrawing money frequently. Children have deposited, from July 2004 to December 2005, a total of 93,805 TK (1380 US\$) and withdrawn 81,791 TK (1200 US \$). The cumulative number of savers is equivalent to 402, all of them being boys.

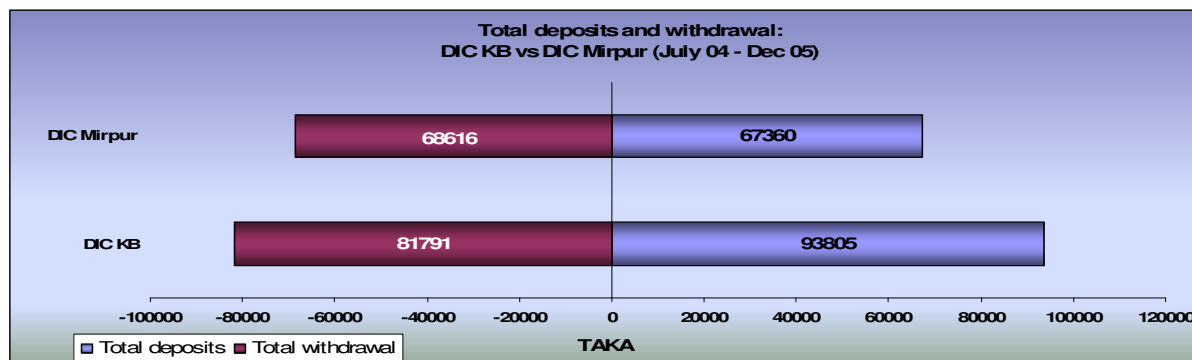
The following figure illustrates the total frequency of deposits and withdrawal.



⁹⁶ IFP means Informal Program

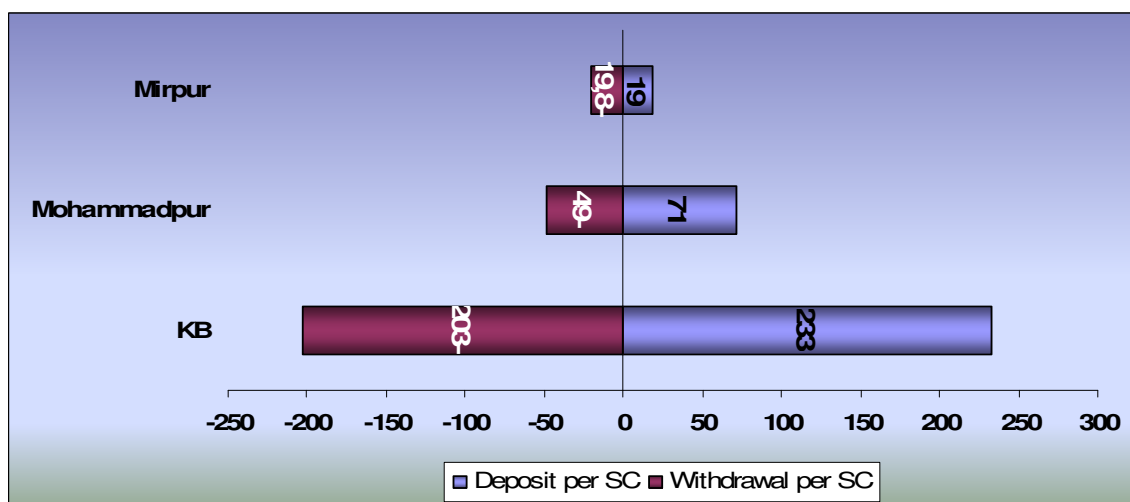
D. Consolidated analysis

Let us now compare those 3 DIC. Our next figure shows that street children of Kawran Bazar DIC are the ones who deposit the more money, but also the ones who withdraw the most. We must recall here, whenever talking of DIC Kawran Bazar, that this IFP is not providing interest on saving, but is still in first position in terms of saving collection.



However, as this could be due to a higher number of savers, we found interesting to segregate those data and analyse the average deposit and withdrawal per street child.

From July 04-Dec 05	Deposit per SC (TK)	Withdrawal per SC (TK)
KB	233	203
Mohammadpur	71	49
Mirpur	40	40



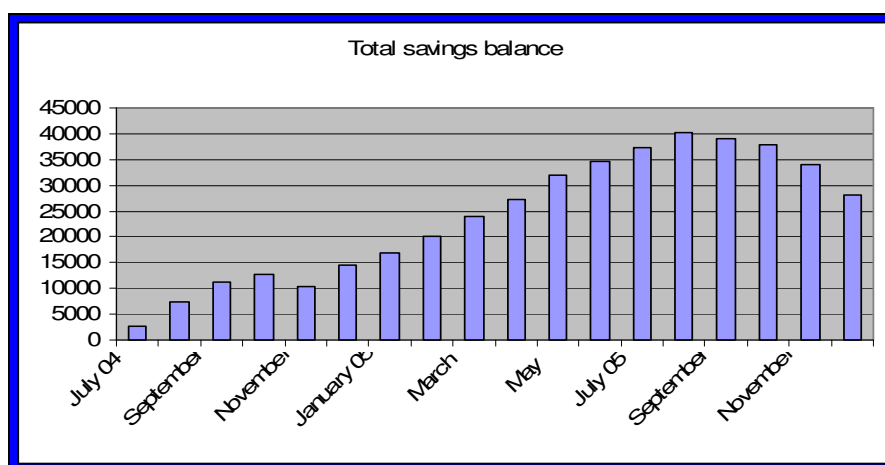
The figures are clear: street children of Kawran Bazar (welcoming a majority of category 1 street children) have the most frequent use. In other words, those children deposit frequently money, but withdraw it also frequently. Finally, all those data do show that street children are using frequently their saving accounts, sign that Padakhep is offering them reliable, convenient and flexible savings services. Centre-based savings allows them to deposit some amount of money whenever they need it. However, as we did point in our section 2.3., monetary returns do not seem to be of considerable importance to street children, as DIC Kawranbazar, providing no interest, is the first program in terms of deposits collection.

3.2. Do street children accumulate large lump sum of money?

Our previous point indicated how street children use repeatedly saving services made available to them, a clear indicator of how they value such service. However, one of the core objectives of Padakhep saving scheme is to help street children accumulate large lump sums of money in order to plan their future expenditures (i.e. life-cycle, emergencies and opportunities). This section aims at enlightening this, by looking at two indicators: the evolution of the savings balance of the programs, and the personal saving accounts of the children.

A. DIC Mohammadpur (FP)

Regarding the total savings balance, the following figure demonstrates that this balance is in constant growth since the beginning of the program, with a slight reduction since September 2005⁹⁷.



However, even it shows that more money is being accumulated in the savings accounts of children (and their guardians), we need to examine in depth the saving pattern of the street children in order to get a more precise idea on how children do accumulate these large lump sums and in order to try to look whether this increase in the saving balance is not only due to an increase in the number of members.

The savings books collected give a diverse picture on the amounts saved:

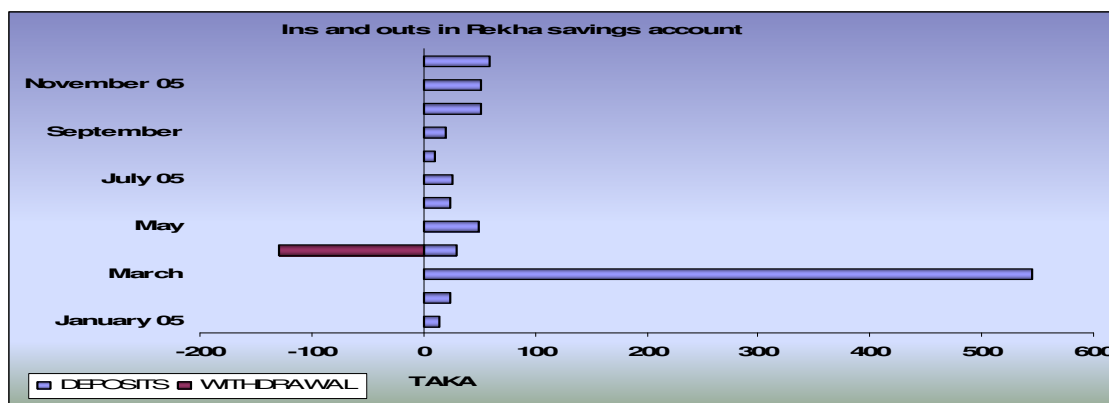
Name	Saving balance (Dec 05)
Shumon	330TK
Rekha	966TK
Raju	525TK
Toma	199TK
Gewel	533TK

Let us now make a zoom on two of those children to see how they did accumulate those lump sum of money.

⁹⁷ One of the reasons of this reduction may be due to the two Eid festivals: one in October 2005 and the second in January 2006. The staff members highlighted how children withdrew money in order to buy gifts for themselves and their siblings.

▪ Case 1: Rekha

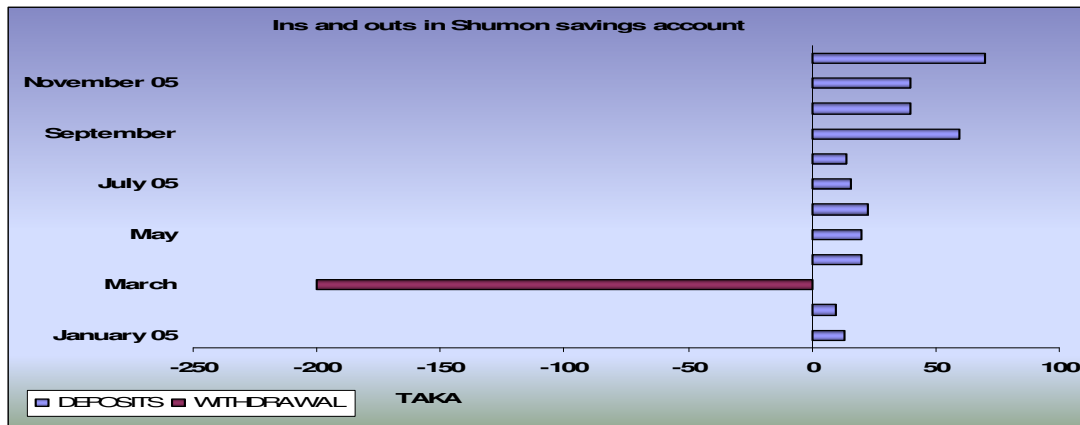
Rekha, a girl of 13 years old, left her village with her parents when she was very young. Her father wanted to find a job in Dhaka city and started to work as a rickshaw puller. Besides, her mother found a job as a domestic helper. However, their combined salary was still very small (+- 30 to 40 Tk daily) and their economic condition was therefore very difficult. At the age of 7, Rekha entered Padakhep and soon later she got admitted in the non formal education program of Padakhep. In 2004, as her father increased income, Rekha started to receive weekly some money from her father. However, Rekha does not forget the difficult situation in which they are living and saves this money in order to support her family whenever they face any problem. Moreover, Rekha knows how important it is to save money for her own well-being and saves therefore money in order to start secondary school. Finally, Rekha added how her participation to some cultural events organized by Padakhep and their partners, allowed her to save more and more money (see March deposit, where Rekha got a prize and saved it). The following figure illustrated ins and outs of Rekha saving account.



▪ Case 2: Shumon

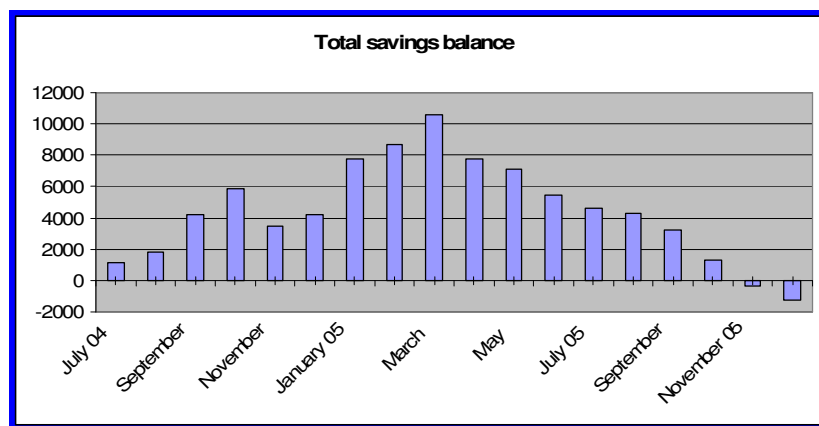
Shumon is a young boy of 14 years old who lives in the slum of Bizli Mohalla, in Dhaka city, with his parents and his 4 siblings. His father has a small grocery shop in the slum area and is the only person who supplies income to his family. In order to support his family, Shumon works in the family's shop.

In the beginning, Shumon was going to school but he finally had to stop when he was 12 years old in order to help his father. Shumon saves some money in Padakhep for two reasons. First, in order to help his family when they face any kind of problem; and second in order to open his own business in the future. This money is being given by his father. The monthly ins and outs of Shumon saving account are illustrated below. (starting with a balance of 212TK in Jan 05)



B. DIC Mirpur (IFP)

The savings balance of DIC Mirpur is far to be equivalent to the one of DIC Mohammadpur. Indeed, we see a particularly high decline since March 2005, many children withdrawing their money.



The following table enlightens this decline:

Month	Deposits (TK)	Withdrawal (TK)
April	5101	7919
May	6192	6836
June	4089	5750
July	5451	6304
August	2144	2443
September	1940	3039
October	3491	5375
November	1382	3034
December 05	1637	2581

This lead to a quite dangerous situation, in which the DIC is now in “deficit” with a negative balance.

The savings books collected from 5 street children give a diverse picture on the total saving balance in December 2005.

Name	Saving Balance (Dec 05)
Golapi	400 TK
Munna	300 TK
Chowdhurry	580 TK
Bahrul Islam	280 TK
Shafikul Islam	620 TK

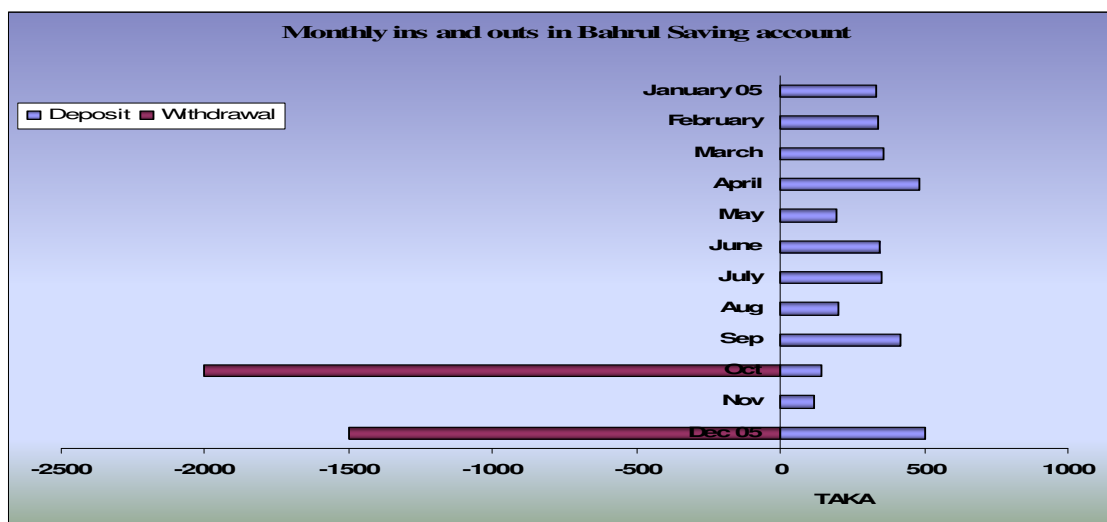
However, the saving balance does not inform about the evolution across time of their savings. Indeed, we need an in-depth analysis of the saving accounts of children. Let us do that with some children.

▪ **CATEGORY 1: Bahrul Islam - a boy building up a large lump sum of money for his family**

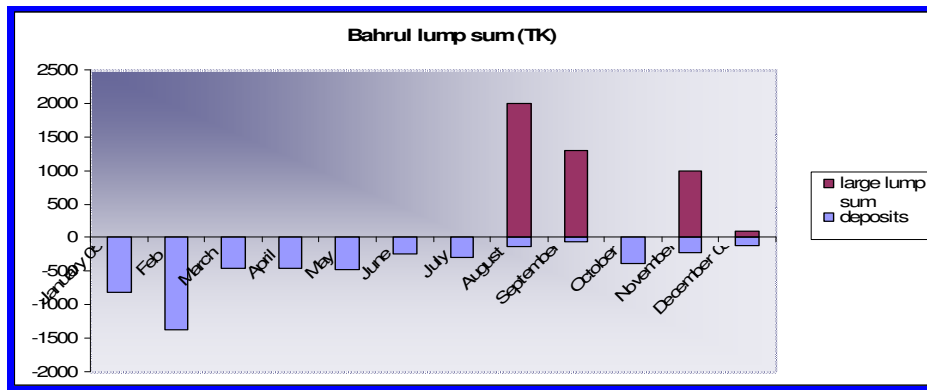
Bahrul Islam, now 13 years old, left his house 2 years ago because he had to bear some expenses for his family (educational expenditures of his 3 brothers & 1 sister) as his father was insane and his mother did earn little amount of money as a domestic worker. He arrived in Dhaka with his uncle. He first lived in his uncle's house but his aunt mistreated him.

He therefore left his uncle's house and went to live with some other children he knew in the street. Sleeping in the street near the National Stadium, he was always harassed by people stealing money from him, and by mosquitoes.

At the beginning, he used to collect some wastage and then he was interested to do cycle rickshaw servicing. He learned only by observing and then got a loan which allowed Bahrul to start his activity. The money he was earning was put in his saving account until he built a large lump sum of money that he sent to his home village through a trustable person working as a bus driver. The following figure shows how Bahrul save money until he had enough to withdraw 2000 TK and 1500 TK.



The next figure shows the deposit amount as negative values, because the child takes money from his available income and deposits on his account, until he will build a large sum of money.



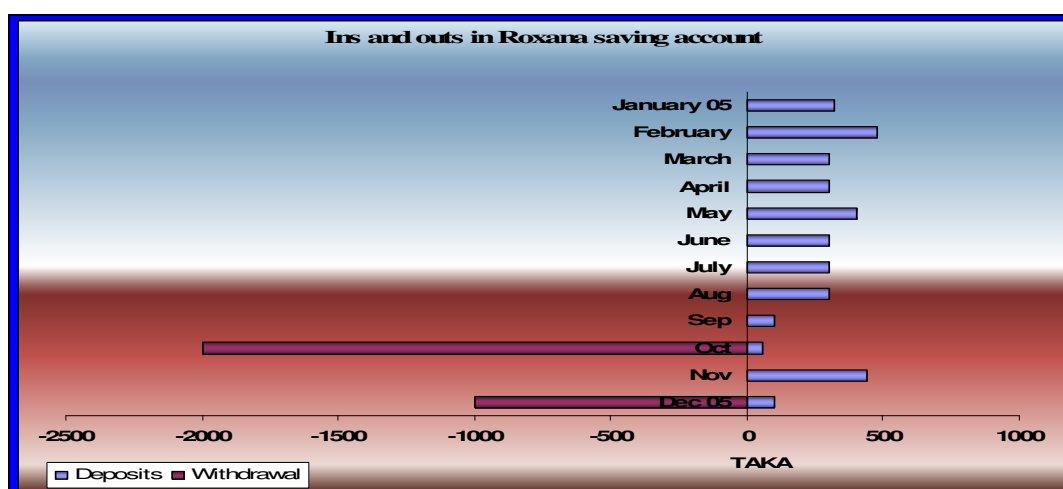
▪ **CATEGORY 2:** Roxana – a 12 year old girl building up a large lump sum for herself⁹⁸

Born and brought up in a slum with neglect and in absolute poverty, Roxana faced many difficult circumstances in her life. When she was 6 years old, her father, a taxi driver, died in a car accident. Soon after, her mother received 5000 TK (74 US\$) from the car company in order to help maintain her family, composed of 1 other sister and 3 brothers; and her mother invested it in a small cake business. Then, she got married with a man who had already 3 wives and was allegedly only interested by her mother's business. Beginning to take the revenue of her wife's shop, her business went bankrupt.

Because this man was always ill-treating her and her siblings, Roxana decided, one day, to leave home with her siblings and to go living with her grandmother in a place with no water supply and only ugly toilets.

But after one month, Roxana had to find a job in order to help financially her grandmother and her siblings. She therefore began to work and to collect some vegetables in some market places, as well as wastages. But, whenever collecting wastage, the worst happened: a man abused her sexually. She then changed place and got involved in Padakhep's program.. Until that time, she never lost contact with her mother and now she is living with her.

At Padakhep, Roxana is saving some money in order to buy things for her in good occasions. She therefore withdrew, in October and December 2005 (Aid El Fitr and Aid El Adha festivals), 2000 TK and 1000 TK, with which she bought some nice dresses and other things. The monthly ins and outs of Roxana is being illustrated in the following table:



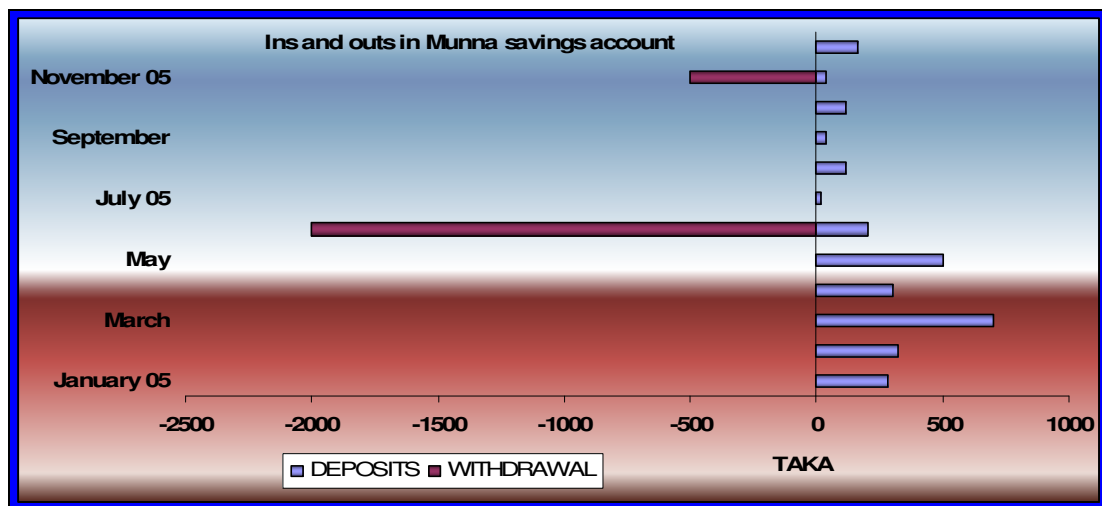
⁹⁸ Roxana is a pseudonym. Indeed, due to the difficult circumstances the girl faced, we prefer not to mention her true name in order to respect her intimacy.

CATEGORY 3 : Munna – a 16 years boy building a large lump sum for his grandmother and himself

Munna, a 16 years old boy, was a child living peacefully in Sherpur, his home village. When his mother died, Munna was 6 years old. His father got a new wife, but his stepmother ill-treated him and his 2 brothers. To shun these physical and psychological harassments, Munna came to Dhaka city when he was 10 years old with his 2 brothers and stayed with his grandmother.

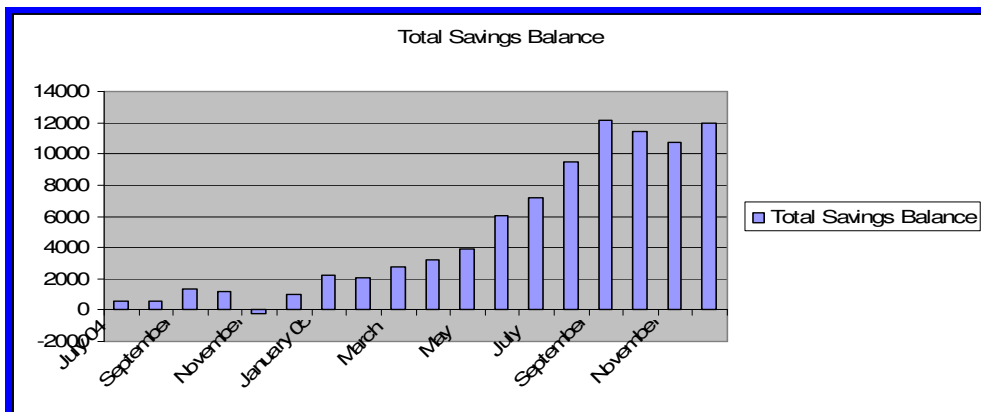
Then, his life suddenly changed. Because he spent most of his time in the streets of Dhaka, he became drug addicted and got involved in “*Mastaans*” group.

Hopefully, after some time, he met Padakhep’s staff and entered in 2002 in DIC Mirpur. Therefore, in order to afford his basic needs and to help his grandmother and young brothers, he found some hazardous jobs (scavenger collector, etc). But soon later, Munna opened his own business and saved some money in Padakhep in order to better help his grandmother and his siblings whether an emergency would arise, as well as for his own future. But Munna does not send money to his home village, as his stepmother is still there.



C. DIC Kawran Bazar (IFP)

Our previous point did highlight that street children of this DIC deposit but also withdraw very repeatedly. However, the total savings balance at the DIC is growing (with a slight decrease in October – Aid festival), which means that more and more money is being stored.



Unfortunately, we have not been able to collect detailed savings data from the register. But our discussions did indicate that they have been able to accumulate large lump sums.

Name	Saving Balance (Dec 05)
Swapon	3000 TK
Gibon	75 TK
Kanchan	300 TK
Md. Ibrahim	500 TK
Rafik El Islam	800 TK

Let us now discover Swapon saving activities.

CATEGORY 1

Swapon, a 16 years boy saving for meeting emergency

At the age of 12, Swapon, whose father died some years before, left his mother because she ill-treated him.

He then discovered the street life, before Padakhep welcomed him in his DIC and offered him with various services. In order to survive, Swapon collects some vegetable in Karwan Bazar market and sells it. He buys it 8 TK a kilo, and sells it at 9 TK. This small profit enables him to meet his present expenditures. But Swapon knows how the future is uncertain and saves therefore some money in order to meet his future expenditures. One day, Swapon made an accident in the street, and needed to make a leg operation urgently. Fortunately, Swapon had already saved at that time 3000 TK, which allowed him to pay for the operation cost.

D. So, do street children accumulate large lump sum?

It seems clear from these figures that street children do accumulate large lump sums, and mainly withdraw it at a precise time for meeting a particular expenditure. However, this tends to demonstrate that Padakhep's saving scheme, based in the drop-in-centre, is reliable, convenient and flexible. Moreover, it shows that interest rates are of little importance, DIC Kawran Bazar being the first in deposits collection, without providing any interest.

3.3.Does access to credit improve street children life?

Answering this question is essential. Indeed, after having highlighted that the different DIC provide some credit to street children and that many of those children do repay it without facing any difficulty, we need now to evaluate the impact generated by those credits on them.

In order to do so, we need to approach the 4 categories of street children separately, by drawing on some case studies collected from our individual-in-depth interviews.

A. CATEGORY 1

"... who work and live on the street day and night without their family"

As pointed in our program profile, two DIC welcome category 1 street children: DIC Kawran Bazar and DIC Mirpur. Those DIC provide different types of credits. Comparing the two programs in terms of "impact" will therefore enable us to capture valuable learning.

▪ **DIC Kawran Bazar**

This DIC is providing street children with free interest loans of relatively small amounts.

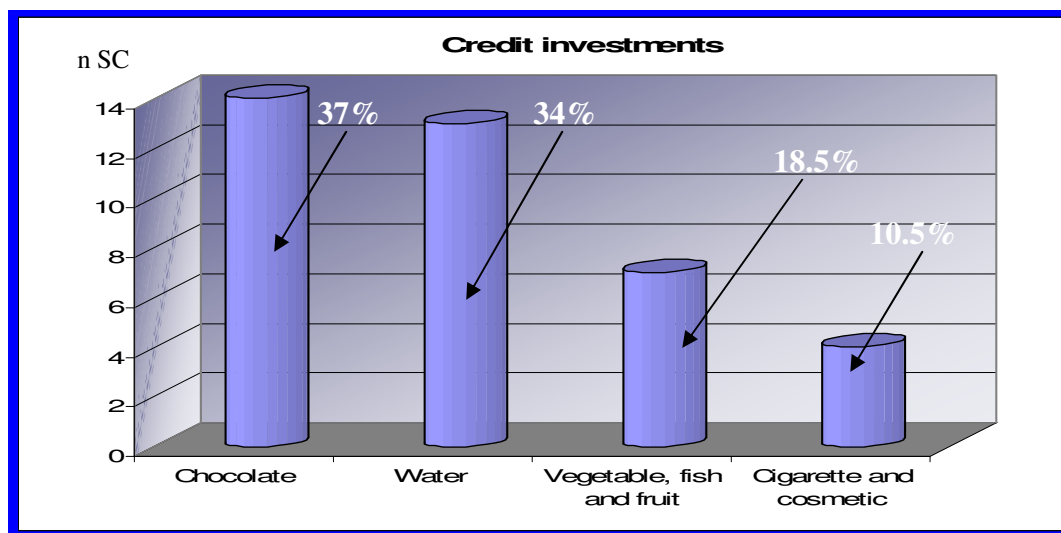
The following table provides the loan disbursements of the DIC from January to December 2005, and the investments made by the street children.

Name	Amount (TK)	Sell	Name	Amount (TK)	Sell
Bakul	70	Chocolate	Tuniz	100	Water
Juwel	200	Beet and cigarette	Sagur	70	Chocolate
Sumon	100	Food	Alam	70	Chocolate
Forkan	100	Water	Helel	100	Chocolate
Jahangir	110	Water	Jibon	200	Water
Rana	100	Vegetable	Parbaj	100	Water
Yunus	400	Fish	Shamim	100	Vegetable
Razu	70	Chocolate	Sumon	100	Beet and cigarette
Ruhul	400	Sigarette	Sujon	70	Water
Kamrul	400	Water ⁹⁹	Sohel	300	Fruit
Safiqul	70	Water	Suzan	100	Water
Noor Mohammad	50	Chocolate	Naim	100	Chocolate
Rahim	100	Chocolate	Kanchan	100	Water

⁹⁹ Water was a particularly lucrative activity for children during Ramadan: indeed, those children were selling water for "iftar" (at sunset time)

Zakir	100	Water	Halim	70	Chocolate
Aakas	100	Vegetable	Sohel Shamsul	78	Chocolate
Al Amin	100	Chocolate	Rubel Shamsul	78	Chocolate
Rubel	70	Water	Mohidul	70	Vegetable
Raihan	100	Water	Billal	300	Cosmetics
Ibrahim	100	Chocolate	Shajahan	200	Water

The street children credit investments can therefore be classified in 4 categories (see below)



n. SC = Number of Street Children

Those credit investments are seasonal businesses that are made in some specific occasions (such as Aid festival). Let us Sujon and Kanchan explain it to us.

Case 1: Sujon and his two credits

- **Credit amounts:** 1st loan - 30 TK; 2nd loan - 70 TK
- **Purpose:** Seasonal business
- **Repayment:** Completed
- **Description:** Sujon is a boy of 13 years old. He was living in a village nearby Dhaka with his father and mother. As his father used to beat him, Sujon decided to leave his village and to go to Dhaka. When he arrived in the city, Sujon has been welcomed by Padakhep and started to work in the vegetable and fish market of Kawran Bazar (as a "Minti"). He earned a daily income of 40 to 50 TK (0.60 to 0.70 US\$). He spends a part of it (+/- 25 TK daily) and saves the remaining amount in case he faces any emergency. The first credit he received (30 TK) was to buy chocolate and sell it near the road signal, in Kawran. He was making a daily profit of 15 to 20 TK, which allowed him to repay his loan after 4 days.. The second credit he received (70 TK) was to buy some water and sell it during Ramadan for iftar. Thanks to it, he made a total profit of 50TK (60% of the loan amount), and repaid his credit after 3 days. Parallel to this, Sujon was still working regularly at the market as a Minti, but planned to start a business...without knowing which one exactly though.

Case 2: Shahin and his three credits¹⁰⁰

- **Credit amounts:** 1st loan - 400 TK; 2nd loan – 300 TK; 3rd loan – 100 TK
- **Purpose:** Seasonal business
- **Repayment:** Completed
- **Description:** Kanchan is a 15 years old boy who lived the worse. His father died and his mother was, alone, keeping them on their feet. Whenever playing football in his village with other children, some “Mastaans” came and offered them biscuits, which were unfortunately “poisoned”. They felt sense less and were kidnapped by those criminals. They brought them near Dhaka city. There, they stayed 7 days, locked in a small room, with fear and without any food. Hopefully, they finally found a way to escape and arrived near Tejgaon railway station. There, Kanchan was found by Padakhep’s staff and joined the program. But Kanchan was so much terrorized that he needed many psychological counselling sessions before restarting to live “normally”.

After a while, Kanchan took a loan from Padakhep (400 TK) in order to buy chocolate bars and to sell them on the streets.

He was earning 50 to 60 TK daily, and was putting all this money in his savings account in order to repay his loan. But while selling those chocolates at the signal, **police men were threatening him and he had to change place**. After having repaid the loan, he took a second credit of 300TK in order to sell sugar cane and was earning daily 100 TK. He therefore repaid the entire credit amount within 5 days.

His third credit was 100 TK, during Ramadan, in order to sell water for Iftar. After 1 month (end of Ramadan), he repaid the entire loan amount without difficulty. A major part of all the earnings generated by these investments have been deposited in his saving account, which had a balance of 300 TK in January 2006. Now, Kanchan is not working and uses his saving money. When talking about the future, Kanchan says he wants to open a grocery shop.

▪ DIC Mirpur

DIC Mirpur is also addressing category 1 street children, but at the difference of the previous DIC, does provide credit of larger amounts to them. Those are generally paid in 23 weekly instalments (6 months) and may or may not be linked with the vocational training received.

¹⁰⁰ As for “Roxana”, we decided not to use the true name of the child, considering the hard events he experienced.

Case 1: Shafikul Islam

- **Credit amount:** 2000 TK
- **Purpose:** Electrical material
- **Repayment:** Completed
- **Description:** Shafikul is a boy of 16 years old who left his home village after his father went away and got married with another woman. He therefore needed to support his mother and his siblings. As soon as he arrived in Dhaka, he met in the street a staff member from DIC Mirpur and entered the program. He had to find a job, and started to work as a “Ferry Walla” (pourquoi tu rajoutes un “h” à la fin, lol (i.e. carrying some goods and selling it to other shops)). He was buying goods in credits and repaid the informal credit (from the MOHAJAN) when he sold all the goods. He saved, from his earning, 20 to 30 TK daily.

In June 2004, Shafikul got a job at Padakhep as peer educator and earned monthly 1000TK.

In November 2004, Shafikul got some vocational training at Dhaksania Mission (one of Padakhep’s partner) in electrical technics. Soon later, he received a loan in January 2005 of 2000 TK in order to buy electrical material. He joined therefore an electrical shop where he worked there from 5 PM to 7 PM and gets 10 TK a day. Sometimes, he also uses his instruments to do some “personal” reparations. He finished the repayment in 23 weeks. Now, he is a little bit worried about his future and wants to establish his OWN grocery shop (electrical) in the future.

Case 2: Chowdhurry

- **Credit amount:** 2000 TK (30 US \$)
- **Purpose:** Vegetable shop
- **Repayment:** Completed
- **Description:** Chowdhurry, a child of 12 years old, is originating from Noakhali. In order to support his family which was living in hard poverty, Chowdhurry decided to leave his home village when he was 9 years old. He left with his cousin and went to Dhaka city. First, his cousin found for him a job as a domestic worker, but he was ill-treated and usually tortured by the house lord. After 2 months of work, Chowdhurry left the house and “arrived” in the street. Hopefully, he met one child who told him about Padakhep and entered the program.

In January 2005, he received a credit of 2000 TK in order to start a vegetable shop. But, as soon as his older brother heard about that, he left the village, came to Dhaka and took the control of the shop.

First, they were both working in their new vegetable shop, but soon later some problems appeared between them and Chowdhurry had to leave the business. He then found another work in a **cement factory**, where he has been working since October 2005 9 to 10 hours a day. “Hopefully”, his brother did pay the loan installments, and felt problems only 2 times, where Chowdhurry did pay for him. When talking about the future, Chowdhurry says that he wants to leave his present job (which he does not like) and start his own vegetable shop

▪ Summary points

Those cases, as well as our different discussions with street children, highlight different interesting facts about category 1 street children:

1. DIC Kawran Bazar allows children to start some seasonal businesses. They do it, but many of them do want to start their own permanent businesses which require larger loan amounts.
2. Those small seasonal business are only a survival strategy, and does not allow the child to plan for the long term.
3. DIC Mirpur does demonstrate that the ones who receive large loan amounts in order to start their own permanent businesses face some difficulties, such as intrusion of a family member or low profit margins.
4. Some, like Shahin, may face some problems with their businesses because of external factors

B. CATEGORY 2

“... who work and live on the street day and night with their family”

Those children are present in DIC Kawran Bazar and Mirpur, though in higher number in Mirpur. Let us therefore zoom on two of children, one in each DIC.

Case 1: Jibon (DIC Kawran Bazar)

- **Credit amount:** 1st loan – 200TK; 2nd loan – 500 TK
- **Purpose:** Seasonal business
- **Repayment:** Completed
- **Description:** Jibon is a 14years old boy living with his parents on the streets of Dhaka. He is the older boy of the family. In order to support better his family, Jibon works in the DIC as a peer educator and receives monthly 1000 TK (15 US \$). However, Jibon knows how profitable it is to start some seasonal businesses. He therefore received a credit of 200 TK (3 US\$) during Ramadan (October 2005) in order to sell water for Iftar. After repaying back the money, Jibon took another loan in January 2006 of 500 TK (7.50 US\$) in order to sell some snacks near the Parliament house before Aid El Adha festival¹⁰¹. Thanks to this second loan, he earned a daily profit of 200 TK. At the end of the 4 days, Jibon was able to collect 800 TK as profit and to save a large part of it for his personal future expenditures. When talking about the future, Jibon says he wants to start his own permanent business.

¹⁰¹ Aid El Adha is the second Muslim festival where the believers sacrifice generally a sheep, following the tradition of Abraham .

Case 2: Roxana and her cake business (DIC Mirpur)

- **Credit amount:** 2000 TK (30 US\$)
- **Purpose:** Cake business
- **Repayment:** completed
- **Description:** We all remember Roxana, this young girl of 12 years old who faces so many difficulties. In October 2005, Munna received a credit in order to start a cake business along the street. It was quite profitable, until her mother came back and started to make pressure on her. Her mother was urging Roxana to go for working, everyday, and was usually beating her. Roxana felt too much under pressure and, moreover, she did not like going to work as the business was dirty and she did not like the activity. As a result, the business is now running just some days, when Roxana has no mean to escape working, and the clients are few. When talking about the future, Roxana says she wants to escape from her mother, who ill-treats her too much, and to start a tea stall or a grocery shop, which give better working conditions than her cake business

- **Summary points:**
 1. Jibon tries to maximize his profits by engaging in different seasonal businesses. Even if this is a short-term survival strategy, it does not provide him with a long term perspective
 2. Roxana does also show us that family intrusion can be dangerous. Her mother involvement in the business was the cause of “failure”.

C. CATEGORY 3

“...work on the street during the daytime and return at night to their relatives”

Munna and his successful investment

- **Credit amount:** 4000 TK (60 US \$)
- **Purpose:** Tea stall
- **Repayment:** Completed
- **Description:** We remember Munna, who is supporting his grandmother and his siblings thanks to his savings. In June 2004, Munna took a loan of 4000 TK to open a tea stall in Mirpur. He repaid it after 6 months without facing any difficulty. Munna values a lot his business which generates high profit margins and enables him to support his grandmother, his siblings and himself! When talking about the future, Munna is very confident and says he wants to expand more and more his business.

D. CATEGORY 4

All category 4 street children are part of Padakhep formal microfinance program, located in DIC Mohammadpur and in the branch. Because of the importance such program has in the mind of Padakhep, we will highlight here 5 case studies, and seek the learning points we could get from them.

Case 1: Rekha and her cake business

- **Credit amount:** 2000 TK (30 US\$)
- **Purpose:** Cake business
- **Repayment:** Not yet completed
- **Description:** Rekha is not unknown to us. Remember our previous section where we described Rekha saving strategy. In October 2005, Rekha received a loan of 2000 TK (US\$29) in order to start her cake business. Thanks to this loan, Rekha has been able to buy some basic inputs for her street business and to sell cakes (i.e. handmade panckakes). After now 3 months, she has already repaid half of the amount (1000 TK) and her business is running well. The Now, Rekha got admitted to secondary school and will work part-time in order to be able to go to school.

Case 2: Shumon and his father's grocery shop

- **Credit amount:** 5000 TK (74 US \$)
- **Purpose:** Parents business
- **Repayment:** completed
- **Description:** Our savings section talked about Shumon, who was saving money in order to help his family and to open his own business. Apart from the support he is providing to his parents business, Shumon took a loan of 5000 TK in January 2005. This credit has been totally invested in his father grocery shop, and Shumon repaid it in June 2005 thanks to the money he received from his parents. Now, Shumon is usually working in his father's shop and wants to open his own business in the future.

Case 3: Gewel and his grocery shop

- **Credit amount:** 5000 TK (74 US \$)
- **Purpose:** start a grocery shop
- **Repayment:** completed
- **Description:** Born in Dhaka (Barichal district), Gewel, a 17 years old boy, always lived in slums. Beginning to discover little by little the street world, he got involved in a "mastaans" gang (see chapter 2 for a definition). But he slowly got out from this vicious circle when discovering Padakhep. He began to save money and, in June 2004, Gewel took a loan of 5000 TK (US\$ 74) in order to start a grocery shop. He paid back his loan after

45 weeks without facing any major difficulty. Concerning his future, Gewel is very optimistic and wants to take another loan to expand his business, just after completing secondary school.

Case 4: Shahida and her father's potato business

- **Credit amount:** 2000 TK (30 US\$)
- **Purpose:** Parents business
- **Repayment:** completed
- **Description:** Chahida, a girl of 17 years old, is living with her parents in a slum of Dhaka city. Her father was disabled and therefore could not maintain her family. As she is the older child in the family, she worked in a garment factory in order to support her parents and her younger siblings. She heard after of Padakhep and entered in June 2003. There, at Padakhep, she received various types of services and because of her high capacity in dealing with other street children, she was proposed a job in Padakhep as a peer educator and was earning 1000TK a month. She began to save a part of this amount for two purposes: to get her secondary school certificate, and to have access to credit. She did this and got therefore 2000 TK as credit. As she knew that giving money to her parents is not a sustainable solution for her, she gave this credit amount to her father in order to start a potato chips business at home, as he is disabled. She managed to work in the same time in her father's shop, and her father gave her the weekly instalments which allowed her to repay the loan after 6 months. When talking about the future, Shahida wants to get her secondary school certificate and to start working with children.

Case 5: Raju and his training

- **Credit amount:** 2000 TK (30 US\$)
- **Purpose:** Mobile materials for his training
- **Repayment:** one instalment remaining
- **Description:** Raju is a young boy of 13 years old who lives with his parents and his 3 siblings in a slum of Dhaka city. His father is a mason helper and earns daily 50 to 60 TK, whereas his mother is a housewife. Raju has one passion: mobile phones. He knows how to repair every mobile phone. In January 2005, Raju took a loan of 2000TK in order to invest it for buying mobile reparation material for his cousin's mobile shop. However, Raju is still a trainee and does not get any income from his activity. However, he repaid the loan thanks to some small reparations he is doing besides his traineeship and to some seasonal businesses. When talking about the future, Rau has one desire: to open his own mobile shop.

▪ **Summary points**

1. Shumon and Shahida did invest the credit in their families businesses. Shumon does want to start his own business and Shahida does not want at all to have a business.
2. Gewel made a successful investment which allows him to support his family and to meet his own expenditures.
3. Raju, even if he benefited from a credit in order to buy mobile material, did only find an unpaid traineeship and is paying back his loan thanks to other activities.

4. Learning points: program effectiveness

The various programs do show a mitigated picture on the effectiveness of the intervention.

⊕ **Regarding savings**

The different savings schemes seem to be reliable, convenient and flexible, the street children using those savings services intensively, and being able to accumulate large lump sums. Moreover, it appeared that providing interest rate is of little importance to the children, demonstrating therefore their high needs to save money and maybe the option for a microfinance program for not providing interest rate, reducing therefore their costs and impacting positively their sustainability. Placing savings services in drop-in-centres is surely the key of their success, which confirms the proposition of our comprehensive microfinance plus framework.

⊕ **Regarding credit**

On one side, when children are being given small loans (for starting seasonal businesses), those loans do not guarantee a long-term perspective to the children.

On the other side, when children are being given larger loans, their businesses seem often far to be a way towards empowerment: the family intrusion does usually inhibit their businesses, or the child faces some difficulties in managing it in a profitable way.

When describing our microfinance model for street children in our section 2.3, we pointed out the necessity to combine the provision of financial services with training (production or service; entrepreneurship and management). Beyond some positive impacts of Padakhep's intervention, we witness different risky factors in Padakhep's program:

- ✓ Some street children receive production training but no entrepreneurship and management training
- ✓ Start a service oriented business (such as a grocery shop) without getting a service oriented training entrepreneurship and management training
- ✓ Some children, like Raju, pay for their production oriented training with the credit amount received; even if he repaid his loan, his gain is limited and, moreover, it creates uncertainty for his future.
- ✓ The families businesses seem to be successful, but the question of the impact on the child is mitigated
- ✓ Linking the guardians to the program might be negatively impacting the children

So, here, both the question of financial services (design and delivery) and of training appears to be the great missing point of Padakhep's credit point, and needs to be strengthened.

2.4.3. Program sustainability

Our previous microfinance model highlighted two dimensions of program sustainability: minimizing costs, and the ability and commitment to pursue the activity in the future. On these two dimensions, we find that Padakhep's microfinance program for street children is poorly sustainable. Let us analyse each of them.

1. Minimizing costs: repayment rate

A. DIC Mohammadpur (FP)

Unfortunately, Padakhep was not keeping up-to-date data. Having received the CGAP Fund in 2001, the MFI was only keeping some data for detailing the use made of the awards fund. In order to check the validity of those data (which stated an astonishing 98% recovery rate), we decided to collect raw data from the branch office, which was keeping data from July 2003. These data allowed us to check the reliability of the informations reported in the CGAP report.

	July 2003 – June 2004	July 2004 – June 2005
Borrowers (Number)	75 (35 Boys, 40 Girls)	26 (9 Boys, 17 Girls)
Loan disbursement (Tk)	300,000	120,000
Loan recovered (Tk)	210,000	30,000
Loan outstanding (Tk) –	90,000	90,000
Number of active borrowers (i.e. borrowers with outstanding loans)	18	20
Service charge earned (Tk)	1,500	11,400
Average loan size (Tk)	4,000	4,615

Exchange rate: \$US 1 = 68 TK

Those data indicate a particularly mitigated picture of the microcredit program. Indeed, the program clearly demonstrates, first, a major decline in the number of street children who benefited from microcredit. Second, it shows how the loan recovery is low. For example, between July 2004 and June 2005, only 25% of the loan disbursed has been recovered. Padakhep made therefore a provision for loan loss equal to 50% of the total amount (up to 1 year). After June 2006, this will be transferred to a provision of 100% in case the children do not repay. Unfortunately, all indicators tend to show that the children will not payback the loan, as the majority of them dropped out because their slum has been evicted by the government, and have therefore completely disappeared (as their family changed location). Supposing this, it means that Padakhep has lost the equivalent of 180,000 TK (\$US 2650) between July 2003 and June 2005.

As pointed above, Padakhep did receive an award of \$US50,000 from which \$US 38,000 has been used as revolving loan fund. One question is therefore remaining: are those \$US2650 of loss part of the award fund or is it a direct loss that Padakhep needed to finance from its own funds?

In order to answer this question, we need to capture the data from the first CGAP reports in order to see if Padakhep was still, in 2003, using the award funds as a revolving loan fund.

Before doing so, we must recall that the award funds have been distributed as loan funds to street children and their guardians. Let us now review the initial data:¹⁰²

	July 2001 – Dec 2001			Jan 2002 – June 2002			Cumulative		
	SC	Adult	All	SC	Adult	All	SC	Adult	All
Borrowers (number)	162	168	330	307	257	564	469	425	894
Loan Disbursement (US \$)	4,832	16,832	21,664	9484	9459	31144	14,316	26,291	40,608
Loan Outstanding (US \$)	2,511	3,076	1,0718	5080	18486	18486	7,591	21,562	29,153
Recovery rate							100%	100%	100%

Following these figures, a total of US\$ 40,608 has been disbursed between July 2001 and June 2002. This means that the US \$ 38,000 of the CGAP have been disbursed in less than one year.

Concerning the recovery rate, Padakhep points out that the recovery rate is equal to 100%. However, being a bit surprised by those statements, some complementary meetings with the executive staff taught us that this recovery rate is not directly related to the loan amount recovered by the children and their guardians, but is related to the amount of loss recovered by Padakhep's own budget. This means that some loss happened. Unfortunately, these loss amounts do not appear in CGAP reports, and no data have been kept in Padakhep's own reports. Our next section will highlight the major problems that lead to such a low recovery rate.

B. DIC Mirpur (Informal program)

DIC Mirpur started to provide credit facilities in December 2003. Since this date up to December 2005, a total of 41 street children -21 girls and 20 boys- have been provided with microcredit for investing it in different income generating activities.

The cumulative loan disbursement is equal to 41,400 TK (US\$ 609), with an average loan size of 1000 TK (US\$ 15). The DIC has recovered 87% of its loans, 5 street children having dropped out from the program

In order to understand practically the loan recovery process, let us focus on Shafikul Islam, whose previous section demonstrated how an active saver he was.

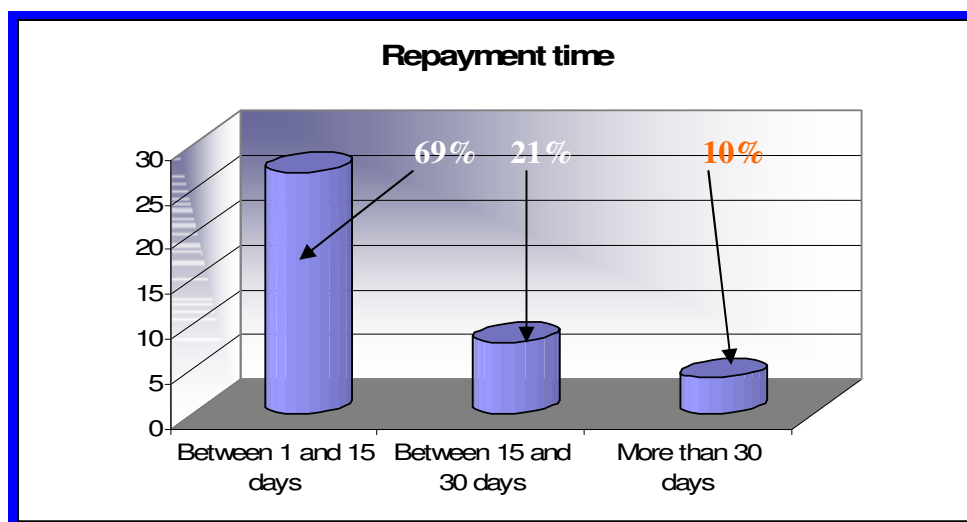
Bahrul Islam bought some cycle rickshaw servicing material in order to repair cycle rickshaws transiting in Mirpur. Having taken the loan in January 2004, he has been able to reimburse it in May 2004, respecting his weekly repayment schedule.

¹⁰² 1 US \$ = 58 TK at that time

C. DIC Kawran Bazar (Informal program)

This DIC has disbursed, from July 2004 to December 2005, a total of 5852 TK (US\$ 86) of credit to 44 street children (all boys), with an average loan size equal to 133 TK (2US \$). Out of this, 38 street children have repaid their loans and 6 street children were not able to repay it because their business investments were not successful. However, as pointed by the DIC Manager, those street children have not disappeared and they have promised to do their best to repay it.

The following figure captures the loan repayment time of the 38 street children, classified in three categories



It demonstrates the quick repayment behaviour of street children. Indeed, only 10 percents have repaid after 1 month, half of them having done so because the loan amounts were bigger than the average (i.e. equal to 400TK)

2. Ability and commitment to pursue the activity in the future

Our different discussions with the staff showed a separated picture between microfinance section and youth section. On one side, the microfinance staff seemed to have few concerns about street children, but a high competence on microfinance. On the other side, the street children staff had a high commitment to serve street children, but few competences on microfinance. Beyond this question, some other elements affect the sustainability of the program. They are highlighted below:

- **Who is responsible of what?**

The microfinance for street children program is partly managed by the microfinance section, and partly by the child development section, creating therefore problems in terms of management and, hence, in terms of viability. Everybody seems therefore to “reject” the responsibilities on others. This shows how the lack of coordination is important.

- **Where are the data?**

A big issue impacting the sustainability is the data record. The system of record is far to be efficient, especially for credit. For savings, it seems to be more efficient.

- **Where is the staff?**

As pointed by the Executive director of Padakhep, the high staff turnover is a big problem. Indeed, working with street children is challenging, and the staff tends quickly to move on.

- **Formal and informal program**

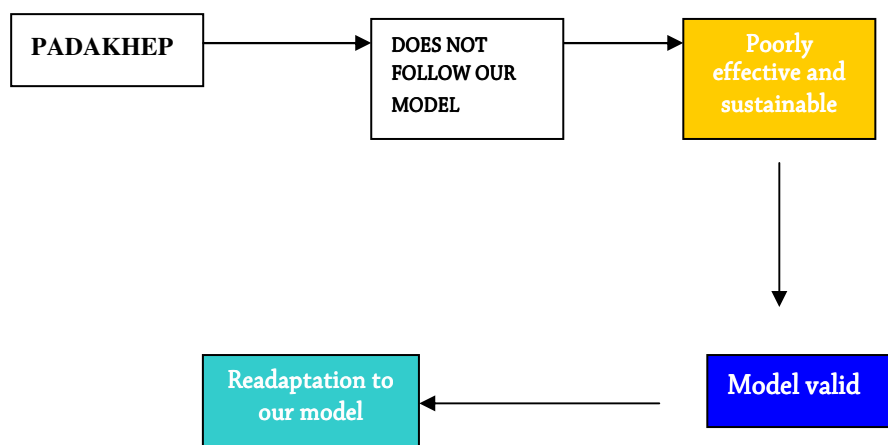
The presence of a formal and an informal program jointly is clearly a big problem in terms of sustainability

2.4.4. A cross-cutting issue: Outreach vs. Effectiveness vs. Sustainability

We have pointed out how Padakhep started officially its microfinance activity by making a business (credit) plan. This plan was aimed at setting objectives in terms of outreach: each year, more street children had to be reached. However, this credit plan, because of the absence of a good framework surrounding it, had a negative impact on “sustainability” and “effectiveness”: Indeed, in order to reach the targets, credits were delivered: in terms of effectiveness, some street children who did not really need it were provided with credit; and the street children who needed it were not accompanied in the process of disbursing credit; in terms of sustainability, the recovery rate was low, and because of the lack of a clear management, it impacted the ability of the organisation to deliver such credits, reducing their outreach. We see how trying to reach the maximum of street children without setting up a good microfinance framework can lead to serious impacts in terms of effectiveness and sustainability.

2.4.5. Some recommendations

If we come back to our case study framework, those two previous points helped us to test the validity of our model, and helps us to make recommendations to Padakhep:



First, we learned that our model is valid. However, among all the elements proposed in our framework, one proposed activity seems problematic: linking guardians. Indeed, this appeared as a problematic issue in our paper; and a program that seeks such involvement must carefully analyse all the risk parameters before doing so.

Following this figure, Padakhep must try to readapt its framework of intervention to our comprehensive microfinance for street children program proposed before. This means concretely:

1. Uniformize the Informal and Formal Programs, and create one single program

We have seen how keeping two different programs is inadequate. Those two programs must therefore be merged in an effective and sustainable way, creating a single and uniform program, settled on clear rules and regulations.

2. Savings:

Those services are reliable, convenient and flexible; however, convenience can be enhanced by a computerized registering system and costs can be reduced by not providing interests on savings (as highlighted previously)

3. Credit:

- a. Loan access criteria must be settled clearly according to our proposed model, in order to avoid providing credit to children who do not need it and who are not able to manage it effectively, enhancing therefore their vulnerability.
- b. Linking the guardians is a difficult task, and must be considered with precaution.
- c. Small loans for seasonal businesses can be useful in the very short term, as a first aid, but do not provide viable long term perspectives to street children. Although stopping providing directly those seasonal credits may not be appropriate in the short term, the program needs

progressively to integrate a global perspective on start-up businesses, with the help of the microfinance section.

- d. The “Revolving loan fund” must not be taken from other budget; a separate budget for that must be provided for each DIC.
- e. Focusing on group-lending may be a viable solution in order to enhance effectiveness; although this demands a high investment of the staff to coordinate such activity.
- f. One of the key issues of Padakhep seems to be vocational training. Indeed, credit MUST be directly linked to the vocational training, following our process. Providing small credits for seasonal businesses might be useful in the short-term, but can harm the child’s well-being and does not provide a better future. Following all the steps of our comprehensive microfinance for street children framework is essential to guarantee an effective and sustainable intervention.

4. **Management:**

- a. **Management structure:** Our question of provider did point out two possibilities of delivering “a microfinance for street children program”: YSO focus; or YSO/MFI Partnership. Here, very interestingly, the second provision model might be the most adequate one: the Child section of Padakhep must be the main manager of the program, from savings to credit, but needs to be helped by the Microfinance section. This is, indeed, a way to limit the costs (training, etc) and hence to increase the sustainability. Finally, the difficult coordination between the child development section and the microfinance section is an illustration of the difficulties that a non-well designed partnership can face.
- b. **The staff:** An important issue is the staff. The high staff turnover created negative impacts to the program and will still create if no solutions are found in terms of incentives.
- c. **Data:** Keeping data is essential for evaluating the program. In order to do so, a uniformized system among the three DIC must be settled.
- d. **Outreach:** trying to reach a maximum of street children must not be the objective. Although in terms of savings, this may not be a problem, in terms of credit this can be problematic. The key objective is the long term well-being of the child.

5. **Marketing:**

Give a name to the program (in consultation with street children), in order to ensure an appropriation of the program and the knowledge diffusion of Padakhep’s microfinance program for street children across the country.