Health Loans
A Technical Guide for MFIs
ACKNOWLEDGEMENTS

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LIST OF ACRONYMS

CARD—Center for Agriculture and Rural Development, Inc.
CRECER—Crédito con Educación Rural
MAHP—Microfinance and Health Protection
MFI—Microfinance Institution
PADME—Projet d’Appui au Développement des Micro-Entreprises
PAR—Portfolio at Risk
PPP—Preferred Provider Program
RCPB—Réseau des Caisses Populaires du Burkina
Background

Freedom from Hunger, a recognized expert in integrated financial and nonfinancial services for the poor, launched the Microfinance and Health Protection (MAHP) initiative in January 2006 with funding from the Bill & Melinda Gates Foundation. The MAHP initiative set out to develop and test an array of health-related products and services that could be offered practically and sustainably by microfinance institutions (MFIs). The following five MFIs participated in the four-year pilot initiative (* indicates those that experimented with health loans in particular). Each planned to continue and scale them up beyond 2010.

- Bandhan* (India)
- CARD* (Philippines)
- CRECER* (Bolivia)
- PADME (Bénin)
- RCPB* (Burkina Faso)

As of the end of 2009, these MFIs were collectively reaching close to three million clients with microfinance services, and more than 300,000 with a variety of health protection services, including health education, health financing, health provider linkages and/or access to health products. Health loans were among those products developed and tested.

Health loans have the potential to enable poor people to disrupt the vicious cycle of poverty and ill health at a moment of serious need, while also helping MFIs reduce the instances of business loan repurposing, non-repayment and dropout that too often result from health problems. Beginning in 2007, four of the MAHP MFIs experimented with offering “health loans.” By the end of 2009, about 250,000 of their clients (combined) had access to health loans, and over 15,000 health loans had been made (about 13,600 health-insurance-premium loans and 2,300 other health loans) by the four MFIs, in total. In early 2010, all four MFIs had already begun earnest plans for scale-up.

The average health loan size across the four partners was about $125, and repayment typically took place over 12 months. The MFIs’ health loan portfolio-at-risk (PAR), after two or more years of operation, came in at 0 percent for Bandhan, 1 percent for CARD, 6 percent for RCPB and over 40 percent for CRECER.¹ RCPB cited a single problematic loan in a small portfolio for its elevated PAR and expected to return to 0 percent within a short period. CRECER had experienced a number of operational and other challenges during the period that severely affected its portfolio—perhaps the most important being a rough transition from group-based lending to the individual model selected for the health loan—and the MFI had retrenched and recently re-launched its health loan product at the time of writing. So the health loan practice has by no means been mastered and is certainly not without risks!

Nevertheless, health loans do appear to hold promise as a potentially viable second-generation product for MFIs—particularly as a stand-in for health micro-insurance until this is more widely available and, in the

¹ Health loan portfolio data as of December 31, 2009, as reported by the MFIs.
case of CARD, as a mechanism to facilitate access to health micro-insurance where it is already available. Still, broader experimentation and exchange of learnings is needed.

Based on the experiences and lessons learned of Freedom from Hunger and four MFIs, this Technical Guide is intended as a contribution to the microfinance sector on the nascent practice of providing health loans to microfinance clients.

**Objectives**

The objectives of this Health Loans: A Technical Guide for MFIs are to

- provide MFIs and the microfinance sector at-large with a set of considerations and actual field experiences of several MFIs related to the design and delivery of health loans;
- stimulate replication, further experimentation and the sharing of new lessons learned surrounding the gamut of health financing by a wide variety of MFIs around the world; and
- increase and enhance the types of financing and other tools available to poor people to address a critical component of poverty—health.

**How to Use This Guide**

The guide is intended to be used by microfinance practitioners as a reference when considering developing such a product; during the process of configuring a health loan product; and as a springboard for sharing with the sector new results, learnings and experience-based recommendations of their own. This guide is organized into five chapters, each focusing on a different dimension of health loan development, design and implementation, as follows.

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**Audience**
This technical guide is especially addressed to MFI staff considering adding health loans to the MFI’s existing financial services. All key staff who will be involved in the market research, concept development and pilot-testing of such products—including managers and leaders—will benefit from reviewing this guide.

**Technical Guide Series**
Lessons learned from the MAHP initiative innovations are available in a series of technical guides that are designed to enable other MFIs to successfully add health education, health financing mechanisms, health provider linkages, and/or other health protection services. We encourage users of this guide to also consult Market Research for Microfinance and Health Protection: A Technical Guide for MFIs before designing a product and implementing a pilot-test. Other related technical guides by Freedom from Hunger include Health Savings: A Technical Guide for MFIs and Developing Linkages with Health Providers: A Technical Guide for MFIs. Freedom from Hunger also offers a workshop for MFI leaders and practitioners on the rationale and consideration for integrating microfinance and health services. More information about Freedom from Hunger, the MAHP initiative and associated products and guides is available at www.ffhtecnical.org.
CHAPTER 1: DEVELOPING A HEALTH LOAN PRODUCT
Developing a Health Loan Product

Is My MFI Ready to Try Health Loans?

Health Loans: Definition and Rationale

A health loan is a credit product especially designed to help pay the costs of health-related expenses that are beyond the immediate financial capacity of MFI clients. When health loans are a source of rapid and affordable capital to confront health-related expenses, clients are more able to access timely, essential health care and are less vulnerable to the financial stress of unexpected expenses caused by ill health.

Loans for health are by definition not used for income-generating purposes and, as such, entail certain risks for the MFI. There is no guarantee that a client or her family member will regain health and be able to repay the loan on schedule, and since there is no income associated with the use of the loan, it may be difficult for a poor person to find the means to repay at all. Given this, why would an MFI accept such additional risk?

Many MFIs have found ill health to be a common cause of client default and dropout. Serious family illness can lead clients to redirect their business loan proceeds to cover hospital expenses; sell or pawn vital business equipment or valuable household goods, such as a sewing machine or bicycle, to pay for emergency care; abandon their microenterprises for extended periods to care for a sick relative; or borrow money at much higher interest rates from a local moneylender to pay for health expenses, thereby affecting their capacity to repay and save with their MFI. In addition, when clients are unable to secure the money they need to pay for health care, they forego or put off needed care, risking more serious illness and greater expense down the road.

In an ideal world, loans specifically designed for health purposes would not be needed. People would have enough knowledge about preventive health practices, and enough savings to seek and pay for preventive and primary care on their own, and health insurance and/or national health programs would be available to cover more serious and costly treatment. However, the reality is that most of the poor do not have access to affordable health care and financing options. In most low-income countries, poor families pay a high proportion—about 30 percent in many African countries—of their health costs directly to health providers out of their own pockets. High levels of out-of-pocket spending have a variety of harmful effects. Some people are deterred from using health services or from continuing treatment because they cannot afford to pay. Every year, more than 100 million people are driven below the poverty line as a result of disproportionate spending on health.

“Had I not received this health loan from Bandhan, I would have lost both my sons as well as my assets, and my life would have been in a state of loneliness and misery. Bandhan brought back light in my family and I am obliged to spread this message of my immense benefit out of this loan to all the people whom I know.”

−Bandhan Client, India


Developing a Health Loan Product

Given the complexity of insurance products, especially for health, it will take time for health micro-insurance to become a widespread option for MFI clients. In the interim, health loans can be a valuable tool for meeting the critical healthcare needs of MFI clients, protecting their business assets, and at the same time reducing business risk for MFIs. Although extending credit for medical expenses must be carefully considered and managed to prevent client over-indebtedness and increased MFI PAR, health loans may effectively contribute to the progress of many microfinance clients in lifting themselves out of poverty.

From Market Research to Pilot-Test

Any new-product development should commence with an assessment of institutional capacity, followed by market research, product design, financial modeling and pilot-testing. The purpose of market research in developing health loans is to help the MFI understand

- gaps between health-related needs of clients and the health-related services available to them in the target area;
- costs and financial impact of illness and health events; and
- strategies clients currently use to finance healthcare costs.

Assuming that appropriate institutional capacity exists or can be put in place to realistically implement the new product, market research should lead to the design of a product prototype with features that reflect the needs and demands of the market as well as the capacities and limitations of the MFI. Chapters 3, 4 and 5 of this guide suggest elements to consider in the design of health loans.

As a product prototype is being refined, it is important to develop a financial model to identify and calibrate the anticipated costs, revenues and investment needed. Then, with a potentially viable prototype in hand,
an MFI should proceed to a small-scale pilot-test, evaluation, and revisions to the product and processes before broader scale-up.

*For a step-by-step guide to market research related to health and microfinance integration, please see Market Research for Microfinance and Health Protection: A Technical Guide for MFIs by Freedom from Hunger.*

*For more information on product development, MicroSave has a series of toolkits on market research, financial modeling and pilot-test protocols for MFIs, available at www.microsave.org. These valuable tools and processes are designed for developing financial products, whereas the Freedom from Hunger technical guide mentioned above contains tools adapted specifically for health-related research by MFIs.*

**Institutional Capacity**

An MFI considering developing a health loan product will need to take into account its capacity in the following areas before beginning: individual lending capacity, health loan portfolio capitalization, health expertise, and complementary services to enhance impact and reduce risk. If these are not in place as market research begins, the MFI should take measures to develop them or consider postponing the implementation of health loans. Further explanation and suggestions follow below.

**Individual Lending Capacity**

Health loans are more suited to an individual loan design rather than a group approach, since the loan is tied to a specific person’s health condition and needs. Group and individual lending entail different processes and systems for administering loans and managing risk. As such, health loans are easier to develop, roll out and manage if the MFI already has expertise and processes in place to support individual lending. An MFI lacking individual-loan experience will need to build knowledge and capacity in this area.

Examples of processes that are necessary to successfully manage health loans include screening and qualification of individual applicants, close oversight of loan disbursement, verification of loan use, and monitoring of loan repayment, which may carry different terms from regular business loans. The ability to manage such processes and efficiently integrate the product into the MFI’s existing systems will be critical for the success of the new health loan product.

At Bandhan, a fast-growing MFI in India that makes individual loans in a group setting, the health loan is managed by its regular credit officers. This helped to mainstream the health loan into the MFI’s existing services.
Developing a Health Loan Product

Health Loan Portfolio Capitalization
Given the higher risk associated with health loans, an MFI must consider how it will capitalize its health loan portfolio. For some deposit-taking MFIs, liquidity from client savings can be a sufficient source of funds for health loans. However, MFIs that access capital from commercial banks or investment firms should determine early whether special accommodations from the lender would be possible or whether a cap on the size of the health loan portfolio will be necessary due to external influences or restrictions—and how this would affect the product’s viability.

At RCPB—a credit union network with very strong savings mobilization—the health loan is tied to individual health savings accounts. By requiring a capitalization period of six months in which clients build up a dedicated health savings account before they are eligible for health loans, RCPB adds to its overall savings deposits and further protects its ability to fund the health loan product. This linking of health savings and loans also helps to ensure that clients have some savings on hand to address lower-cost healthcare needs or contribute to a major health expense, thereby keeping health-related debt to a minimum and decreasing the likelihood that clients will use health loans for purposes other than health.

Bandhan has had to limit its health loan portfolio to no more than 1 percent of total loans, due to risk-related constraints imposed by commercial banks and portfolio insurers.

Health Expertise
While health expertise is not necessarily needed over the long term to provide a health loan product, the perspective of a health expert is recommended at least during the product design phase. Staff or a consultant with health expertise can help not only to shape questions and interpret market research results, but also to contribute to a product design that will best meet clients’ needs without placing an undue burden on the MFI. Such an advisor can also be helpful in creating appropriate mechanisms to ensure that loan proceeds go toward needed, good-quality health services as well as to protect the MFI from fraud. Some MFIs have found it helpful to have at least one staff person with a health background (i.e. doctor, nurse or other health professional), but another option is for an MFI to work only temporarily with a local or other outside health expert while developing the health loan (for example, during market research, product design and later for a pilot-test evaluation). If needed, this outside resource can also assist in building staff expertise, capacity and confidence for ongoing management and monitoring of the health loan. CRECER has had success with university interns or recent graduates from a health program who work alongside CRECER operations staff for 6 to 12 months at a time, providing support and input during the pilot-test and even beyond.

Complementary Services to Enhance Impact and Reduce Risk
While health loans can be an important resource for clients in times of acute need, MFIs should consider other low-cost, high-impact mechanisms that can enhance the social impact of the health loan while also protecting the MFI’s health loan resources. Preventive health education is one important example of a service that reinforces recommended health behaviors to prevent disease, helps clients recognize when to seek treatment before an illness becomes severe, and ultimately reduces the demand for health loans. In MFIs that offer health education, health loans can provide a mechanism by which to gather valuable information—
in aggregate form and not linked to specific clients—about common but serious ailments that may be preventable through increased knowledge or the promotion of behavioral changes. Using this information to tailor health education to cover preventable health or healthcare access problems that commonly lead to the need for health loans, MFIs can reinforce the health "package" offered and the impact that it has on clients.

Even in MFIs in which education is not regularly offered and group-based services do not provide a ready platform, it may be possible and desirable to offer some form of health education or health financing management training as an optional session or series that clients may choose to attend. Creating linkages or partnerships with health providers is another example of an effective and relatively affordable way for MFIs to enhance their health package while managing risk. Rather than develop expertise in health care, MFIs can leverage their local influence and business acumen to create reliable linkages with available health providers, negotiate rates and advocate for better quality of and accessibility to health care.

With these prerequisites—and other general ones outlined in Market Research for Microfinance and Health Protection: A Technical Guide for MFIs—in place or well on their way to being so, the MFI should be ready to launch market research with an eye to developing health loans for their clients. The following chapters detail specific health loan design considerations to take into account during the product development process.

Freedom from Hunger has developed a broad range of health education sessions. For further information about health education, visit www.ffhtechnical.org. For more information on creating linkages with health service providers, please see Developing Linkages with Health Providers: A Technical Guide for MFIs by Freedom from Hunger.
What expenses should health loans cover?

In defining the health loan product and its characteristics, careful consideration should be given to eligible uses. Health-financing needs are varied, and the health loan cannot meet all of those needs. For example, savings—perhaps even a dedicated health savings product—may be most suitable for small, regular, health-related expenses, and can complement health loans quite well. In places where health micro-insurance or social protection programs are available, health loans may only be needed to enable gradual premium payments, if at all. This chapter presents various types of health-related expenses and the appropriateness of health loans for covering those expenses.

Major Medical Expenses

Costly medical treatments such as surgery or hospitalization are strong candidates for health loans, especially when health micro-insurance is not accessible to the poor and when public health care is unavailable, not free or markedly sub-par. In these cases, a health loan can help clients prevent financial crisis and worsening of potentially serious health conditions. An important consideration in designing health loans for this use, though, is loan size and the MFI’s inclination for offering loans that are sizable enough to cover most major medical expenses. The expenses for major surgeries or long-term hospitalization, as may be the case with terminal illnesses, can be very large, and the MFI is bound to face requests that exceed its risk threshold.

Health Insurance Premiums

MFIs that have the opportunity to link clients with an available and accessible health insurance product may find that health loans can facilitate access to this important financial protection. By providing health loans to finance health insurance premiums, MFIs can help clients obtain and maintain health insurance coverage to protect them from health-related shocks.

MFIs seeking to design loans for health insurance premiums should learn as much about the insurance product as possible—including the availability of participating health providers, the quality of service, rate of claims payment and denial, and existing clients’ satisfaction—before proceeding. Regardless of the MFI’s relationship with the insurance...
provider, clients will closely identify the product with the MFI, and unpaid claims or other causes for complaint will reflect on the MFI. Further, the MFI will need to work closely with the insurance provider to ensure

- the insurance product’s appropriateness and affordability for clients;
- that payment and reimbursement processes can be supported by MFI and insurance-provider information systems; and
- there is a plan to educate clients and promote the product to overcome a common lack of knowledge and understanding of health insurance that can impede take-up, satisfaction and re-enrollment.

An MFI will probably need to invest significant staff time during the first year of implementation to hone the interface between the MFI and the insurance provider.

### Aesthetic and Elective Treatments

Treatments such as reconstruction of body parts from loss of limbs, skin grafts for burn treatment, and extensive dental care and dentures, while not life-threatening, can substantially improve the quality of life and self-esteem of affected clients. For example, a full set of dentures for someone who has lost all her teeth can improve nutrition and ability to articulate words clearly. At the same time, dental caps—though sometimes essential for restoring a broken tooth’s strength—may not be essential enough to warrant additional client debt and the added financial risk to the MFI. It can be difficult to distinguish between treatments that are purely aesthetic and those that have significant value to health or livelihood, and this is not an expertise that most MFIs seek to develop. In designing its health loan product, the MFI should consider how it will handle such issues. Emphasizing health loans for truly necessary medical interventions, and avoiding financing aesthetic treatments, is recommended.

> “Many years ago, due to a lack of proper attention and money, I failed to have good dental care, and as a result I ended up losing all my teeth. This made eating and speaking clearly very difficult. But with the health loan I was able to get a complete set of dentures.”

—CRECER Client, Bolivia

During the pilot-test of a health loan, the staff of CRECER was surprised to receive some health loan requests for non-essential health care, such as gold dental caps. Clients placed a great value on these dental caps because they represent social status in the local culture. The MFI decided to grant such requests, provided all other loan qualifications were met. Detailed research eventually revealed that many clients were obtaining medically necessary treatment but then also adding the gold caps at the same time—thanks in part to the health loan. Clients reported great appreciation to CRECER for this opportunity. But due to a combination of factors (this potentially being but one), the MFI later experienced a high PAR rate for health loans.
Emergencies

Health-related emergencies can lead to an unexpected loss in income and a major crisis for a family. For this reason, health loans are especially valuable to clients during emergencies, when clients have few readily available financing options. But the MFI must be prepared to design and implement rapid health loan approval and disbursement processes to enable use of the health loan for this purpose.

While some MFIs initially considered dedicating health loans exclusively to emergencies, they realized that this could be counter-productive. Certain conditions may not start out as emergencies but can become more serious and costly to treat if not addressed early on. For example, if a lack of funds prevents a woman from accessing early treatment for cervical cancer, she could face the need for a much higher loan and considerable disability down the road. In addition, health emergencies can be difficult to define, especially by individuals who are not health providers.

“...My daughter fell and injured the back of her right leg, and there was a lot of bleeding. Doctors checked her and advised an operation. That time, we had to spend lots of money. We managed [the expense] from the Bandhan loan and [other resources].”

−Bandhan Client, India

During a concept development workshop in which the attributes of the health loan were defined at RCPB, staff discussed designing the product as an “emergency health loan.” However, after discussion with a health expert, it became clear that limiting the use of loans to cases of emergency could be problematic if important health needs were delayed, and that determining whether care met the emergency definition would be challenging for the MFI’s financial staff. Instead, RCPB decided to simplify the product by removing the “emergency” requirement and instead focused on improving clients’ access to timely, needed medical care.

Specific Illnesses

An effort to focus the health protection package on specific health issues and design components that complement each other to achieve a high impact on such problems is laudable. However, this limited focus can be very challenging because of the complex dynamic between the cause and effect of diseases. For example, if the MFI aimed to address malaria, and if health loans were restricted to this disease, then how would the MFI respond when a woman with severe anemia, often caused by malaria, required urgent, expensive care? Furthermore, the precise pathology of certain symptoms can be unknown until treatment progresses.

RCPB initially sought to limit the use of the health loan to a certain set of illnesses that had appeared in the market research as being particularly common and acute. But after further consideration and input from a health professional during the product design phase, the MFI realized that the interconnectedness of many diseases and symptoms would limit the feasibility and the value to clients of a disease-specific health loan product.
Preventive and Primary Care

Although frequent, small and relatively predictable health expenses could potentially be covered by health loans, doing so is probably not practical or efficient for the MFI. An alternative is to focus on protecting the health and financial security of clients by providing education sessions on preventive health practices and other financial strategies, such as dedicated health savings, to cover minor health-related expenditures.

CRECER initially opted to provide two types of health loans: an individual health loan for major medical expenses, and a group health loan to cover the USD $3–$8 per client fee for primary and diagnostic care provided by contracted mobile doctors on community health days. After a few months of promoting and testing the group health loan product, CRECER discontinued it because clients were able to pay and preferred to pay these fees out of pocket. Instead, as a complement to its health loans for major medical expenses, CRECER is delivering preventive health education as well as a health education module that encourages and equips participants to adopt a personal savings strategy to cope with the small, regular health expenses that their families face. CRECER pays for this health education component through interest earned on its regular microenterprise loans.

Rather than provide a health loan to cover minor medical expenses, RCPB opted to create a health savings product to ensure that clients regularly set aside small amounts for health and always have some funds on hand to address basic health needs—preventive diagnostic or minor treatment—when needed. Clients who are up-to-date on their RCPB health savings accounts are eligible for health loans when major medical events arise that cannot be covered by their savings.⁴

Medicines and/or Health Products

The use of a health loan to cover medicines or health products (such as insecticide-treated mosquito nets) raises similar issues as those associated with preventive and routine care. In many cases, the expense associated with medicines is small enough that it might be best covered through alternatives, such as savings. However, a health loan might represent the only viable mechanism for some people to purchase costly medicines or health protection products and, in the process, enable clients to spread out this expense over a longer period of time.

⁴ For more information on health savings, see Freedom from Hunger’s Health Savings: A Technical Guide for MFIs.
⁵ Research results from Bandhan and the MAHP initiative will be published by Freedom from Hunger in 2010.
CARD is considering developing a loan that facilitates access to maintenance drugs for chronic diseases. This health loan concept (still under development at the time of this writing) would enable clients to purchase a three-month supply of needed prescription medication for chronic diseases, such as high blood pressure and asthma. This would make it possible for clients to obtain volume discounts on their medication, could potentially improve consistency and compliance with drug therapy and disease management, and would enable clients to spread the cost of their medication over three months of smaller payments.

As an alternative to providing health loans for medicines or medical products, Bandhan trains and organizes volunteer community health workers who routinely visit villages and sell affordable, high-quality health products that can help clients avoid more expensive health complications. Examples of these products include oral rehydration salts, paracetamol, de-worming medications, antacids, pregnancy tests and oral contraceptives. The community health workers are proud of and satisfied with their part-time work. Impact research showed significant and positive changes in local women’s health knowledge and behaviors, and Bandhan is currently scaling up the program.

A client satisfaction survey in Bolivia found that clients are dissatisfied with the stipulation that the health loan could not cover medicines or necessary follow-up treatment. Clients reported that in order to cover those expenses, they resort to more expensive financing sources, thereby contravening the objective of the health loan. For the time being, CRECER is continuing to limit the health loan until processes are smooth and the portfolio is performing well.
The following section highlights critical issues to be considered in the design of a health loan product. Table 1 summarizes the key features of health loans provided by four MFIs.

**TABLE 1: KEY HEALTH LOAN FEATURES**

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<td></td>
<td>• $42–$104 (local currency)</td>
<td>• $6–$25 (local currency)</td>
<td>• $2,000 (in USD) maximum amount of CRECER debt</td>
<td>• $21–$642 (local currency)</td>
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<td><strong>Nominal Annual Interest Rates</strong></td>
<td>Health Loan: • 10% (flat) Regular Loan: • 12.5% (flat)</td>
<td>Health Loan: • 24% (flat) Regular Loan: • 30% (flat)</td>
<td>Health Loan: • 18% (flat) Regular Loan: • 20% (flat)</td>
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</tr>
<tr>
<td><strong>Guarantees and Collateral</strong></td>
<td>• Collective guarantee. Group members act as guarantors, providing their opinion on the validity of the loan request as well as repayment capacity during a regular weekly meeting.</td>
<td>• No collective guarantee.</td>
<td>• No collective guarantee.</td>
<td>• No collective guarantee.</td>
</tr>
</tbody>
</table>
### Health Loan Features

<table>
<thead>
<tr>
<th>Repayment Terms</th>
<th>Bandhan (India)</th>
<th>CARD (Philippines)</th>
<th>CRECER (Bolivia)</th>
<th>RCPB (Burkina Faso)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Maximum 1-year term.</td>
<td>• Up to 1-year term (depending on which quarter enrollment and loan occur).</td>
<td>• Six- to 24-month term</td>
<td>• Up to 1-year term</td>
</tr>
<tr>
<td></td>
<td>• 1-month grace period.</td>
<td>• No grace period.</td>
<td>• Grace period up to 3 months for serious procedures.</td>
<td>• Grace period of 1 month or longer; depending on repayment plan.</td>
</tr>
<tr>
<td></td>
<td>• Flexible repayment schedule: monthly, quarterly or semi-annually.</td>
<td>• Flat weekly payment for 11–50 weeks (depending on when enrolled).</td>
<td>• Weekly or biweekly repayment at regular credit-group meetings.</td>
<td>Flexible repayment schedule: monthly, quarterly or semi-annually.</td>
</tr>
<tr>
<td>Other</td>
<td>• Loan proceeds exclusively to pay for PhilHealth account.</td>
<td></td>
<td></td>
<td>• Requires health savings account with at least 6 months of regular saving history.</td>
</tr>
</tbody>
</table>

### Eligibility

Establishing and communicating clear eligibility criteria and procedures, both within the MFI and to clients, will help limit financial risk, ensure appropriate use of loan proceeds, reduce time spent analyzing and communicating with clients about ineligible applications, and minimize disappointment or dissatisfaction with the product.

### Client Status

Existing clients who have established a payment history with the MFI by successfully completing one or more loan cycles, represent less of a financial risk than new clients. Mature clients have established relationships with MFI staff, have proven their ability and commitment to repay on time, and have an incentive to maintain a solid repayment history in order to continue accessing MFI services. For this reason, many MFIs require clients to have an excellent credit history with the MFI, with a minimum of two completed loans. An added benefit of such a policy—if widely communicated to clients—is that health loan eligibility can become an effective additional incentive for clients to maintain good business loan repayment over the long term.

### Family and Friends

A common question faced by MFIs is how far within a client’s family or network the health loan should be extended. Limiting the loan to treating the client herself may stop short of achieving the aim—since the serious illness of a child, other dependent or spouse can impact a family’s finances, future earnings and ability to repay business loans just as much as the client’s own illness. But in some cultures, specifying that family members can avail themselves of the loan still leaves open a question about who is and is not family, and providing proof of family lineage can be impractical if not impossible.

Some MFIs have addressed this challenge by making the health loan available to all family members of any

100 percent of RCPB health loan clients agree with the requirement to present receipts and other mandatory documents to receive their health loan.
eligible client without rigorous proof, as long as the client is clearly responsible for the payment and fulfills other requirements, such as having a guarantor. The idea behind this approach is that it is cheaper and more effective for the MFI to rely on a trusted client’s assessment of his/her own financial risk in using the loan for a person considered family than it is to set up exclusionary rules and an extensive vetting process. Other MFIs have defined the specific family members who are eligible (for example, living under the same roof, or parents of the client). This design point depends largely on culture and context, but should be carefully considered during the product development phase.

**Repayment Capacity**

Given the greater inherent risk associated with health loans, MFIs will want to consider how best to assess repayment capacity. Even if the MFI has the expertise and human capacity to conduct an individual assessment of family income and health loan repayment capacity, the time required to do so may prohibit rapid disbursement needed for emergency health treatment. As mentioned above, some MFIs simply require that health loan recipients have a 100 percent repayment history over several loan cycles with the organization. A triage approach wherein certain emergency circumstances trigger a lighter assessment and faster disbursement can help achieve a balance between careful risk management and rapid turnaround, although this does introduce a degree of variation and judgment. Guarantees and collateral, covered further below, are another way to manage repayment risk. One MFI has found a two-tiered guarantee and collateral approach to be successful: salaried employees with a steady flow of income (directly deposited at the MFI) have lower guarantee and collateral requirements for health loans than clients working in the informal sector.

85 percent of CARD clients “strongly agree” that they prefer the weekly payment for the health premium (enabled through a loan) to paying the premium quarterly to PhilHealth.

---

**CRECER** examines the repayment capacity and total indebtedness to ensure that the health loan is affordable to clients, thereby reducing the risk of default. Repayment capacity is determined by verifying that the client’s total income (as reported by the client and not verified by the MFI) can cover existing debts plus the additional health loan payment. In addition, CRECER sets a fixed cap on total debt with CRECER to help prevent the client from becoming over-indebted.

**Proof of Treatment**

The MFI should also consider how it will ensure that health loans are used for their intended purpose—especially if they are offered at reduced interest rates compared to microenterprise loans. Requiring official receipts for treatment expenses is one approach, but this can limit or prevent clients’ access to health services due to the upfront out-of-pocket expense or the time associated with obtaining the required document and securing MFI approval. The requirements regarding proof of treatment and medical necessity must be based on a solid understanding—secured through market research—of the local healthcare system and processes to access care, as well as perhaps the participation of a knowledgeable medical consultant in the product development process.
There are ranges and variations for each of these factors that can be combined into a set of eligibility requirements to balance MFI risk-management with access to needed health loans. The establishment of these requirements should ideally build on existing processes to minimize the administrative burden and expedite loan approval and disbursement.

Table 2 summarizes the eligibility criteria of the four MFIs from the MAHP initiative.

**TABLE 2: SAMPLE CLIENT-ELIGIBILITY CRITERIA**

| Bandhan (India) | | | | |
|-----------------|-----------------|-----------------|-----------------|
| • Has completed at least two business loan cycles with 100 percent repayment. | • Has provided complete health loan application with a picture of the patient. | • Has provided a doctor’s certificate stating treatment needed and cost. | • Had secured a group recommendation letter. |

| RCPB (Burkina Faso) | | | | |
|---------------------|-----------------|-----------------|-----------------|
| • Has been a member for at least three months. | • Has a positive credit history with RCPB and is current on credit payments and savings. | • Has engaged in a profitable work activity. | • Has an active health savings account at RCPB with six months of regular saving history or at least $20 on deposit. |
| • Has provided doctor’s certificate and prescriptions as proof of treatment and cost. | | | |

| CRECER (Bolivia) | | | | |
|------------------|-----------------|-----------------|-----------------|
| • Has been at least in second or third loan cycle (has repaid at least one loan with CRECER and thus been a member for about a year). | • Has a good credit history with CRECER and has sufficient net income to repay. | | |
Health Loan Features

CARD (Philippines)
- Has completed two loan cycles.
- Has 100 percent repayment history and good meeting-attendance record.
- Has been approved for enrollment into the national health insurance program.

Loan size

Setting an appropriate loan-size range is another important determination, which relates to the allowable use of the health loan. Market research should help the MFI establish typical costs for the healthcare services that are allowed. The MFI can then cross-reference with its existing loan sizes, administrative processes and assumptions about client indebtedness and ability to pay, in order to derive realistic minimum and maximum loan sizes.

Loans for major medical expenses should be large enough to cover a significant portion of hospitalization expenses. If the health loan amount is inadequate, clients will need to fill the gap by borrowing from other sources, including local moneylenders, which could erode the intended benefits of the health loan for the client as well as jeopardize repayment capacity. On the other hand, loans that are too large relative to the client’s ability to pay can create undue risk for the MFI as well as long-term difficulties for the client. MAHP MFIs’ health loans ranged in size from about $26 (for the micro-insurance premium loan) to $286 at the end of 2009.

An assessment of the health loan features at Bandhan determined that an established maximum loan size was often meeting less than one-half the average cost of treatment. As a result, some clients reported having to sell assets or borrow money from moneylenders to complement the MFI health loan in order to cover all of their health-related expenditures. Still, access to at least some health loan funds through the MFI was deemed very helpful.

Interest Rates

MFIs will also need to determine an appropriate interest rate for health loans—should the rate be lower, equal to or higher than the MFIs’ other loan products?

All of the MFIs in the MAHP initiative elected to set health loan rates lower than their regular business loans in an effort to lighten the burden of non-productive debt as well as protect the MFI from appearing to profit from the misfortunes of their clients. Although lower-interest health loans might tempt some clients to present fraudulent documentation in order to obtain cheaper credit, the four MFIs’ various eligibility, disbursement verification and monitoring processes—and perhaps clients’ loyalty and appreciation for this and other MFI services—appear to have successfully prevented at least any significant abuse over two years of pilot-testing.
Another option is to offer the health loan at the same interest rate as other loan products. The advantage to clients would be the access to additional credit beyond their current business loan to pay for medical expenses. The disadvantages to the MFI may include reputational risk and client inability to pay.

An argument can also be made for offering health loans at a higher interest rate than business loans. Health loans represent greater risk for the MFI, which should in theory be offset by a higher return. Clients should also be discouraged from pursuing the health loan unless they absolutely need it. Furthermore, alternative sources of funds for health expenses are often much more costly than MFI business loan rates; thus, a higher rate for health loans may still fall well below a client's other options. On the other hand, this approach might not deter clients from using business loan proceeds to address health needs and might add to the risk of client over-indebtedness and default.6

“Clients reported being very happy with Bandhan’s significantly lower interest rate for health loans. They reported that the lower interest rate enables them to cope with the financial burden of financing treatment.”

—Assessment of Bandhan’s health loan

Guarantees and Collateral

The increased risk of health loans will necessitate a review of appropriate guarantees and collateral by the MFI—particularly as health loans tend to be individual-, rather than group-liability, credit products.

Although one MFI (see box) has managed to successfully apply some group liability to the health loan, relying on a group guarantee for a health loan is not practical in some contexts. Some clients may eventually drop out due to unwillingness to shoulder such risk. Clients often highly value the privacy of an individual loan when it comes to health, and the time required to assemble a group, obtain everyone’s approval and process the documents can easily exceed the time available in the case of a serious medical need.

6 Freedom from Hunger does not have experience with MFIs offering health loans at rates equal to or higher than MFI microenterprise loan rates, and would be interested to learn more about others’ experiences with such loans, as well as other MFIs’ experiences with providing health loans at lower rates.
Health Loan Features

One MFI requires a third-party guarantor who is also a client of the MFI to co-sign for a health loan, while another demands a pledge of assets that the MFI could liquidate in the case of nonpayment. These requirements may help assure repayment, but careful consideration should be given to the tradeoffs involved—including a client’s realistic ability to meet such requirements; the time required by both the client and the MFI to produce, verify and process these, especially during what could be a medical emergency; and the administrative burden on the MFI.

Learning more through market research about common costs of major health events and how people manage to pay for them, outside of assistance from an MFI, can help an MFI to structure health loan requirements in a manner that balances risk protection with user-friendliness and efficiency.

Grace Period and Repayment Terms

Although some flexibility of repayment terms is realistic and needed to accommodate the circumstances surrounding the health loan need, MFIs that have tested various repayment approaches have found that they should be as simple, straightforward and integrated into regular processes and systems as possible.

A grace period should ideally allow adequate time for the borrower or her family member to recover from the illness, but recovery periods vary widely and must be balanced with the MFI’s risk-management strategy. Some MFIs are allowing a one-month grace period, with more flexibility in cases of a serious and prolonged illness.

CRECER’s early experiences with pilot-testing health loans led to the following guarantee criteria to minimize risks:

• No cross-guarantees are allowed (two people cannot guarantee each other’s health loans).
• Guarantors cannot be relatives, including relatives to the second degree (e.g., no second cousins, great aunts, etc.).
• Guarantors will be evaluated on their capacity to repay the loan.
• If the guarantor is from the same banking group, she cannot act as a guarantor for any other CRECER member.

Bandhan requires a client’s credit group to agree to take responsibility for a client’s on-time repayment of a health loan. The group has the ability to agree to only a certain amount of the funds requested by the client. If the group agrees to the health loan, then each group member signs her name in support. Bandhan has maintained a 0 percent health loan PAR and has found this group guarantee process to be effective in screening and monitoring the health loans, as it creates group pressure for borrowers to use health loans for the designated purposes.
Freedom from Hunger recommends instituting a health loan repayment schedule that includes a reasonable grace period, a relatively lengthy term (up to one year), and at least two payments (as opposed to a single balloon payment at the end). Payments should ideally be made to regular MFI business loan staff according to a similar procedure to minimize confusion and complexity. Table 1 summarizes the features of the health loans provided by four MFIs of the Microfinance and Health Protection initiative.

**CRECER** learned that when a health loan client is part of an MFI’s village banking program, health loan repayment should coincide with community bank meetings and regular loan payment. Early on, CRECER experimented with a different health loan repayment schedule—partly to help clients avoid having too large a payment (health + business loan) to pay on a single day. However, community bank members sometimes forgot to pay their health loan or felt inconvenienced by the additional time and transportation cost necessary to repay. Moreover, bundling occasional health loan payment with regular business loan repayment and staff is more efficient and assured for the MFI, whose regular loan officers have close relationships and regular contact with the clients.

At **CARD**, the health loan pays directly for the national insurance program, PhilHealth. Since enrollment in PhilHealth runs for a 12-month period (April–March), and enrollment is quarterly, the actual amount of the loan and number of payments depends on the quarter in which the member enrolls. The weekly loan payment is fixed at $.60, regardless of in which quarter a client enrolls, and the total loan size and number of installments simply vary accordingly.

84 percent of a group of Bandhan clients who had used health loans were relieved that they could access the health loan to cover their expenses; 81 percent felt the interest on the loan was low (affordable).

“I have been a CRECER client for 10 cycles now. I have suffered from rheumatoid arthritis for 15 years. I also suffer from gall bladder problems. Even though I had health insurance through my husband, I was not able to seek the medical attention I needed. I also had the bad luck of breaking my leg. This was going to cost me even more money, as I needed three surgeries. My sister told me about CRECER’s health loan, which covers health costs and makes referrals to doctors. I’m very appreciative of CRECER, which is the only institution that cares about my health.”

—CRECER Client, Bolivia
What Approval, Disbursement and Monitoring Processes are Appropriate for Health Loans?

For MFIs with experience providing individual loans, adding a health loan product can be cost-neutral or even profitable when integrated with existing processes. But the unique nature of health loans may call for different loan approval, processing and monitoring activities. Whatever the configuration of loan approval and processing procedures, the health loan system should be engineered to be as swift and efficient as feasible.

When an MFI is unable to distribute loan funds quickly after receiving an application, clients may have no choice but to fill the gap by borrowing from moneylenders, which can undermine the value of the health loan and add to its ultimate expense. MFIs participating in the MAHP initiative generally reported time-to-disbursement of between one and five days. The following considerations will help inform the design of effective processes to successfully support a health loan product.

Approval Process

Verifying Intended Health Loan Use

The MFI will want to ensure that the health loan proceeds will be applied to an eligible expenditure. Such verification can be done using prescriptions, receipts or other medical records that document the needed treatment and/or medicines, a home visit to verify the patient's health status, confirmation and approval from the client’s group, a combination of these and/or other methods. The three MFIs offering health loans (other than the insurance-premium loan) as part of the MAHP initiative implemented home visits to verify loan-use eligibility both before and after disbursement. However, home visits require added staff time, and in some cases travel, and may not be possible or cost-effective for some MFIs’ operations.

Loan Approval

Due to the unusual and risky nature of health loans, the approval process may be more stringent than those of similar-sized business loans. In general, though, health loan approval should follow a similar—though more rapid—circuit of approval as an MFI’s other credit products, and someone should be empowered to judge the situation and make a rapid unilateral decision in the case of an emergency.

Table 3 synthesizes the health loan application and approval processes of the four MFIs spotlighted in this guide. MFI-reported time to complete these processes from beginning to end are noted next to each.
**TABLE 3: HEALTH LOAN APPLICATION AND APPROVAL PROCESS**

<table>
<thead>
<tr>
<th>Bandhan (India)—three to five days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Client provides required documentation, including a doctor’s certificate and a picture of the person with ill health.</td>
</tr>
<tr>
<td>2. Client’s credit group meets to determine whether to be guarantors for an agreed-upon amount.</td>
</tr>
<tr>
<td>3. Credit officer reviews loan application, conducts a home visit, and verifies repayment capacity.</td>
</tr>
<tr>
<td>4. Branch manager communicates final loan decision.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CARD (Philippines)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Eligible clients complete insurance and loan applications.</td>
</tr>
<tr>
<td>2. Credit officer verifies eligibility and approves loan subject to approved insurance enrollment.</td>
</tr>
<tr>
<td>3. Enrollment applications are submitted to insurance carrier.</td>
</tr>
<tr>
<td>4. Enrollment is verified by insurance carrier and loan proceeds are remitted quarterly by CARD to PhilHealth to cover premium.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CRECER (Bolivia)—five to seven days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Client submits application to an individual credit agent for a loan to cover a health procedure.</td>
</tr>
<tr>
<td>2. Individual credit agent evaluates application, verifies credit standing and repayment capacity with client’s community bank credit agent, conducts a home visit, and calculates repayment capacity and overall indebtedness to the MFI.</td>
</tr>
<tr>
<td>3. Local or regional credit committee (depending on amount) conducts credit review and makes a decision.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RCPB (Burkina Faso)—one day</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Client provides documentation of need (such as a doctor’s diagnosis and order for treatment, prescription, or medical receipts) and collateral or guarantor’s identity and signature.</td>
</tr>
<tr>
<td>2. Credit agent verifies client’s credit union membership, status of health savings account, guarantors and/or collateral and communicates recommendation to credit union director.</td>
</tr>
<tr>
<td>3. Credit union director makes and communicates a decision.</td>
</tr>
</tbody>
</table>

**Disbursement Process**

Given that health loans are approved for a specific purpose, one way to mitigate the risk of fraud and ensure that clients pay for an acceptable quality of treatment is to disburse the loan directly to the health provider, rather than to the client who in turn takes the proceeds and pays for care. Each approach has its advantages and disadvantages. Freedom from Hunger has seen both approaches used successfully.
**Direct Payment to Client**

When the health loan is disbursed directly to the client, as with most MFI business loans, he or she is expected to use the proceeds to pay for the expenses documented in the loan application. In some cases, the health loan may in fact be a reimbursement for care already received and approved after the fact.

**Advantages**

- Providing the funds directly to the client is usually simple and standard for the MFI and requires minimal staff training and skills development.
- The health loan may easily be used either for medical expenses about to be incurred or for reimbursement of health expenses already paid, without distinct MFI processes.

**Disadvantages**

- Clients may use some or all of the money for other purposes—especially tempting if the health loan interest rate is lower than for other loans; alternative monitoring and control mechanisms are required to minimize fraud.
- The MFI’s potential leverage to negotiate reduced prices with health service providers could be lost, resulting in more indebtedness than necessary.
- Clients might inadvertently utilize the funds for substandard care.

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**Direct Payment to Health Provider**

A direct payment from the MFI to a health provider involves either a check made payable to a specific provider and carried by the client, or a payment made by the MFI to the provider through cash or transfer. Often such an arrangement entails the MFI having a roster and/or some guidance for credit staff regarding approved providers, and frequently used providers may warrant an agreement with the MFI and negotiated discount rates for common services. Admittedly this would often constitute a new skill for an MFI, but an upfront investment can yield significant long-term advantages for both client and MFI.

**Advantages**

- Assures that loan funds are used as intended.
- MFI can use experience with usual fee levels to

[Image: A CRECER staff member discusses the features and requirements of a health loan with two CRECER clients.]
negotiate discounted rates for certain health services and products, ultimately benefiting the client with cost-savings.

- MFI can help clients access quality services by vetting the proposed provider or keeping an eligible provider list, which benefits clients while also protecting the MFI against the risk of health complications leading to non-repayment.

- Clients can access health services without having to carry cash (client satisfaction surveys at CRECER indicated that clients appreciated this in particular).

- Health providers are assured of payment and may be more interested in providing care to MFI members.

"When we took out a health loan, CRECER referred us to a doctor who discussed the procedure with us and offered us a lower price. CRECER can help many people because it is connected to so many facilities…"

—CRECER Client, Bolivia

Disadvantages

MFI needs to create and maintain staff capacity and systems for

- identifying, selecting and maintaining relationships with qualified and accessible health service providers;

- transferring payments to providers; and

- safeguarding against provider fraud (the risk that because the MFI will “foot the bill,” the provider charges more or suggests unnecessary treatments).

CRECER develops referral relationships and negotiates prices for surgical and other procedures. Loan disbursements are made directly to provider via cash or check. With this approach, CRECER’s clients have the assurance of gaining access to qualified providers, CRECER has complete certainty that the funds are used for the health need, and the client does not have to worry about transporting or carrying cash. However, the MFI had to invest more upfront in health expert and administrative costs to identify quality providers and negotiate discount and payment arrangements.

Since CARD remits the amount that it collects from clients to pay the pro-rated premium to the national health insurance program, PhilHealth, clients also benefit from the convenience and time savings of not having to travel to a PhilHealth office to enroll and make premium payments. However, difficulties with creating an efficient interface between CARD and PhilHealth initially required CARD staff to spend more time than anticipated to achieve accurate and timely enrollment of clients so that client expectations would be met. These operational and interface issues between PhilHealth and CARD have since been resolved.
A decision about which disbursement approach to take will depend on the goals and internal capacity of the MFI, as well as market needs and demands. Table 4 summarizes how loans are disbursed in a variety of settings.

**TABLE 4 LOAN DISBURSEMENT PROCESS**

<table>
<thead>
<tr>
<th>Steps</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bandhan (India)</strong></td>
<td>To client</td>
</tr>
<tr>
<td>• Disbursement is carried out at the branch office.</td>
<td></td>
</tr>
<tr>
<td>• The credit officer or the regional manager conducts a home visit a week after the loan is disbursed to check patient’s status and verify use.</td>
<td></td>
</tr>
<tr>
<td><strong>CARD (Philippines)</strong></td>
<td>To health insurance provider</td>
</tr>
<tr>
<td>• CARD pays the pro-rated annual premiums directly to PhilHealth.</td>
<td></td>
</tr>
<tr>
<td><strong>CRECER (Bolivia)</strong></td>
<td>To health service providers, including hospitals, clinics, medical centers, labs, dentists, and doctors</td>
</tr>
<tr>
<td>• CRECER staff assists clients with obtaining appropriate services from a reputable, quality public or private health provider.</td>
<td></td>
</tr>
<tr>
<td>• CRECER pays the health provider directly with health loan funds (all negotiation and payment transactions occur between the MFI and health provider).</td>
<td></td>
</tr>
<tr>
<td><strong>RCPB (Burkina Faso)</strong></td>
<td>To client</td>
</tr>
<tr>
<td>• Funds are disbursed directly to the client within a 24- to 48-hour period.</td>
<td></td>
</tr>
</tbody>
</table>

For more information on setting up direct payment and other linkages with health providers, see Developing Linkages with Health Providers: A Technical Guide for MFIs, at http://www.ffhtechnical.org.

**Monitoring**

While approval processes are different, and health loans are riskier in nature than microenterprise loans, monitoring them is similar to monitoring any other credit product. Integration of health loans into the MFI’s other monitoring processes, supervision and controls is important for both efficacy and efficiency. Regular review of key portfolio indicators, trends, staff and client satisfaction surveys should be complemented by periodic comparisons of actual performance to profitability and growth projections, and occasional revision of product attributes and administrative procedures in response to findings. As with any pilot-test, a new-product evaluation after a reasonable time period with a comparison to milestones and decisions about product enhancements and future is crucial. Especially, but not only, in cases where the health loan is repaid via infrequent balloon payments, regular home visits to check on the patient and subtly reinforce repayment discipline can be valuable.

76.5 percent of CRECER clients were satisfied with the health loan and 84 percent were relieved that they could access the health loan to cover health expenses when needed.
How Can an MFI Ensure That its Health Loan Reaches Eligible Clients?

Even the most well-designed and efficiently engineered health loan product cannot benefit clients or cover its costs if very few people know about it and use it. And unlike many other MFI products, a health loan cannot usually be readily taken out as soon as a client hears about it. Training on and marketing of the product must be consistent and widespread enough that both staff and clients have the information they need on the relatively rare occasions when they suddenly need it. Much has been written about MFI new-product training, marketing and promotion, but this is a reminder that such training and promotion must occur on two levels: staff and clients. Despite some of the MAHP MFIs’ extensive experience with new-product development, some still re-learned the importance of education, marketing and promotion of both staff and clients when it came to health loans. The following are a few suggestions to inform effective training and promotion strategies.

**Staff**

**Training**

Staff members should participate in new-product training that not only covers promoting health loans to clients, specific procedures in administering the loans, internal controls, monitoring, incentives, and expectations about staff’s roles in and relationship to the new product, but also engages them in the institution’s social and cost-recovery goals for the health loan. Due to the relative rarity of health loans and to staff turnover, such training needs to be repeated on a regular schedule—perhaps annually—and staff feedback and questions need to be filtered back to management so that the clients’ reactions, staff challenges and successes can be addressed and communicated back out to staff in the future. Feedback sessions and refresher trainings are important, particularly during the pilot phase, when loan features, processes and rules may need to be changed along the way.

**“The trainings have provided us with all the information about the product, and even clients feel that we know everything about the product.”**—RCPB Staff, Burkina Faso

RCPB’s rollout and take-up during a pilot phase was initially impeded because despite some training, staff members were not sufficiently versed in the health loan product and eligibility requirements. Since staff was not effective at explaining the products to MFI clients, some clients applied for the health loan without the required documents, leading to delays and dissatisfaction on all sides. To address this, RCPB distributed a staff health loan manual and conducted training for staff at all levels, which led to increased health loan take-up and portfolio quality.

**CRECER** experienced initial challenges with internal communication about its health loan product. Credit agents, who were working closely with credit groups, did not understand the importance of the health loan and their role in promoting and managing it. This challenge was addressed through staff training and further decentralization of some of the loan processes in an effort to increase ownership and responsibility by staff who had the most frequent and direct contact with members. CRECER rediscovered the importance of involving both leadership and operations staff in new-product trainings.
Incentives

Health loans represent an increased administrative workload with additional procedures and requirements for staff. MFIs that have incentive systems and performance targets for field agents or branches, based for instance on portfolio volume and quality, will need to carefully consider whether these or other incentives should be applied to health loans. The need for health loans is not frequent or predictable, and certain targets can create perverse incentives for staff to contribute to increased MFI risk and client over-indebtedness. Further experimentation and a sharing of promising practices regarding incentives for health loans and other health-related services are needed.

Clients

Staff members who are well-versed in the health loan product is one thing, but—especially barring incentives, as presented above—getting them to promote the product to clients is another. The following mechanisms have been tried by the MAHP MFIs.

- **Direct Client Communication.** Relying on staff to promote health loans through regular channels of client communication—such as group meetings, community meetings, or individual contact between tellers and clients when a client visits the branch—may be most efficient for the MFI. This was among the most effective mechanisms used by the MAHP MFIs, and frequent refresher training for staff can serve the dual purpose of building knowledge and also keeping the product at the forefront of their minds for regular client interactions.

- **Health Education and Other Related Products.** Health education sessions provide an opportunity to promote the availability of health loans in conjunction with the knowledge that clients gain about protecting their health. Similarly, if an MFI offers other health-related services, this could present a valuable opportunity for cross-marketing. All of the MAHP MFIs opted to incorporate some form of health education, including a series of sessions designed by Freedom from Hunger that inform and encourage clients to plan ahead for health expenses, and that also include two adaptable sessions on specific health financing products available from the MFI. This was reported by both MFIs and clients to be highly effective and appreciated.

  “That [amount] allows us to repay, because beyond that amount it could lead us into default. If you increase it a lot, you will have health, but you will not be able to pay back.”

  −RCPB Clients, Burkina Faso

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• **Print and Broadcast Media.** Pamphlets that include the most essential information about a health loan can be created and distributed to MFI clients in branches or at group meetings. Posters serve a similar purpose and can be posted in the MFI’s waiting rooms, offices and meeting rooms. Radio spots that inform the general public about the health loan product serve the dual purpose of promoting the MFI more generally as an institution that cares about its members. RCPB and CRECER found such promotional efforts to be expensive and to yield limited results. RCPB clients were unlikely to pick up or read pamphlets, and when they did, they often did not make the connection that the product could be available to them.

• **Product Informational Sessions.** Some MFIs conduct periodic informational sessions on their products. These can be held for groups of individual clients at a set time, during credit-group meetings or even for the broader community to inform both current and prospective clients of the complete array and availability of MFI services. RCPB has experimented with hiring temporary consultants as “promoters” to visit markets and other gatherings to intensively promote the MFI’s health savings and health loans periodically for several weeks at a time. Although not inexpensive, the strategy has paid off. Health savings accounts skyrocketed in the weeks just after promotion, and this led to a greater pool of clients eligible for and knowledgeable about health loans.

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**In Focus: Health Education**

The promotion of health loans can be part of more comprehensive member education about how to plan for the financial impact of illness. Freedom from Hunger’s Plan for Better Health Technical Learning Conversations guide clients over the course of several brief sessions to consider the financial impact that illness regularly has on their families and provides strategies for planning ahead and reducing this impact. Sessions can also describe the health loans or other related products. Connecting and associating the health loan with similar products or activities, such as health education or community health days, for example, increases awareness, understanding and relevancy.
While there is still much to learn about health financing for the poor, it is clear that there is a serious need. Ill health is increasingly recognized as a major symptom and cause of poverty, and many MFIs cite health events as among the most common reasons for client default and dropout. While government health systems are often intended to provide a “safety net” that enables everyone—including the poor—to obtain adequate care, the reality is that millions of people fail to receive the health care they need or become destitute in order to do so.

Health loans are certainly not the perfect answer, and more experience is needed to determine whether and how they can be viable over a longer term and at large scale. But we believe that health loans have the potential to play an important role as a component of a broader strategy to equip the poor with the resources needed to lift themselves out of poverty. Moreover, although health may not be the bailiwick of most MFIs, its relationship to poverty means that clients’ health issues have an impact on MFIs’ achievement of their social missions, as well as—eventually—their financial well-being.

Freedom from Hunger is committed not only to continuing to explore practical, financially viable solutions for MFIs to better serve poor people, but also to sharing the results of our innovations and those of our partners with the microfinance sector at-large in an effort to encourage replication, continued innovation, product improvement and wider availability of quality value-added microfinance that meet the needs and change the lives of very poor people around the world.
Appendix A. Brief MFI Profiles

The following brief profiles provide some background on the four MFIs referenced in this guide. As participants in Freedom from Hunger’s Microfinance and Health Protection initiative, Bandhan, CARD, CRECER and RCPB all developed and tested health loans as one component of their health protection service packages.

**Bandhan (India)**

Bandhan began operations in July 2002 in the Howrah district of West Bengal. By 2007, Bandhan had received numerous industry awards and was ranked second in Forbes magazine’s list of the “World’s Top 50 Microfinance Institutions.” Bandhan provides microenterprise loans, microenterprise development, education, health and disaster management services for “socioeconomically disadvantaged” people, focusing especially on urban and rural women who are poor, landless and lacking in assets. Bandhan started with the aim of impacting women’s empowerment, believing that enhancing the status of the woman in the family and society, through her ability to generate income, would reduce poverty. Recognizing that financial services alone cannot alleviate poverty, Bandhan developed health protection services beginning in 2006 to better accomplish its mission of improving the living conditions of clients and their communities, while also protecting the MFI’s own financial sustainability.

**BANDHAN INSTITUTIONAL DATA AS OF DECEMBER 2009**

<table>
<thead>
<tr>
<th>MFI-wide</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year MFI established</td>
<td>2002</td>
</tr>
<tr>
<td>Number of active borrowers</td>
<td>1,924,016</td>
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<tr>
<td>Outstanding gross portfolio</td>
<td>234,768,206</td>
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<tr>
<td>Portfolio-at-risk (30 days)</td>
<td>0.16%</td>
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<tr>
<td>Operational self-sufficiency</td>
<td>NA</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Health Protection Products</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year started Credit with Education</td>
<td>2007</td>
</tr>
<tr>
<td>Number of members in credit group program receiving Credit with Education</td>
<td>51,900</td>
</tr>
<tr>
<td>Clients with access to health product distribution</td>
<td>51,900</td>
</tr>
</tbody>
</table>

*Data provided by Bandhan*
CARD (Philippines)

CARD Mutually Reinforcing Institutions (CARD MRI or “CARD”) is a conglomerate of institutions in the Philippines that includes a large NGO offering microfinance services, two regulated microfinance banks, a training and development institute, a business development services arm, and an insurance company offering life, accident, disability and property insurance. CARD also operates directly and through partnerships with other MFIs in several other Southeast Asian countries. CARD offers a range of credit and savings products to its all-female membership, including Credit with Education for clients who take out individual loans in a group setting as inspired by the ASA model (Bangladesh), and who receive brief, interactive “education sessions” at their weekly repayment meetings. The organization has been an active partner of Freedom from Hunger since 2000.

CARD INSTITUTIONAL DATA AS OF DECEMBER 2009

<table>
<thead>
<tr>
<th>MFI-wide</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year MFI established</td>
<td>1986</td>
</tr>
<tr>
<td>Number of active borrowers</td>
<td>967,963</td>
</tr>
<tr>
<td>Outstanding loan portfolio (US$)</td>
<td>81,539,597</td>
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<tr>
<td>Portfolio-at-risk (30 days)</td>
<td>1%</td>
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<tr>
<td>Number of active savers</td>
<td>991,474</td>
</tr>
<tr>
<td>Total savings deposits ($)</td>
<td>50,889,954</td>
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<tr>
<td>Operational self-sufficiency</td>
<td>117%</td>
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</table>

<table>
<thead>
<tr>
<th>Health Protection Products</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year started Credit with Education</td>
<td>2000</td>
</tr>
<tr>
<td>Number of Credit with Education clients</td>
<td>882,673</td>
</tr>
<tr>
<td>Number of clients with health micro-insurance premium loan</td>
<td>13,651</td>
</tr>
<tr>
<td>Number of clients with access to the Preferred Provider Program</td>
<td>138,774</td>
</tr>
</tbody>
</table>

Data provided by CARD
CRECER (Bolivia)

Created by Freedom from Hunger in 1990, CRECER became an independent Bolivian microfinance institution in 1999. It has grown to become the largest village banking institution in South America and serves poor, primarily rural, women clients. CRECER’s flagship product is Credit with Education—group-based microfinance and nonformal education delivered by the same field agent at regular meetings in clients’ communities. CRECER has achieved high levels of efficiency (each field officer reaches 466 clients) and financial self-sufficiency, while maintaining a high portfolio quality (consistently one of the lowest PAR rates in the crowded Bolivian microfinance market). Although CRECER is prohibited by law from collecting savings, each credit group does so using a group account at a regulated financial institution. With a strong social mission and a business need to differentiate itself from competitors, beginning in 2006 CRECER sought to expand its health-related offerings by developing a cohesive package of health protection products that would have significant impact on clients while being provided in an efficient, systematized and cost-effective manner.

CRECER INSTITUTIONAL DATA AS OF DECEMBER 2009

<table>
<thead>
<tr>
<th>MFI-wide</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Year MFI established</td>
<td>1990</td>
</tr>
<tr>
<td>Number of active borrowers</td>
<td>102,212  (95% women)</td>
</tr>
<tr>
<td>Outstanding loan portfolio (US$)</td>
<td>46,067,523</td>
</tr>
<tr>
<td>Portfolio-at-risk (30 days)</td>
<td>0.9%</td>
</tr>
<tr>
<td>Number of active savers</td>
<td>102,212</td>
</tr>
<tr>
<td>Operational self-sufficiency</td>
<td>111%</td>
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<tr>
<th>Health Protection Products</th>
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<tbody>
<tr>
<td>Year started Credit with Education</td>
<td>1990</td>
</tr>
<tr>
<td>Number of Credit with Education clients</td>
<td>102,212</td>
</tr>
<tr>
<td>Number of Health Days (cumulative)</td>
<td>1,237</td>
</tr>
<tr>
<td>Number of Health Day participants (cumulative)</td>
<td>23,900</td>
</tr>
<tr>
<td>Number of health loans (cumulative)</td>
<td>256</td>
</tr>
<tr>
<td>Outstanding health loan portfolio ($)</td>
<td>25,161</td>
</tr>
</tbody>
</table>

Data provided by CRECER
**PADME (Bénin)**

Projet d’Appui au Développement des Microentreprises, known as PADME, is among the most prominent MFIs in the crowded and competitive Béninois microfinance market. In 2008, PADME boasted the largest number of microfinance clients in the country and a loan portfolio almost equivalent to that of its closest rival, FECECAM. PADME’s gross loan portfolio is primarily comprised of individual loans, and the MFI is not authorized to take savings deposits. Having experienced unsuccessful results with group loans in rural areas (high PAR and write-offs), in 2006 PADME sought to implement Credit with Education, with the goal of combining a more systematic group loan and meeting methodology (to reinforce discipline and solidarity as well as improve repayment) with value-added education (to enable greater outreach to the poor, enhance PADME’s image and contribute to the social mission). Based on market research and management conviction, PADME opted to focus its education almost exclusively on health (especially malaria, HIV/AIDS and childhood illness). And, recognizing that information and training on these diseases would not necessarily be enough to engender change, PADME also decided to test out the sale of complementary health products, such as insecticide-treated mosquito nets and condoms. Through these health protection products, PADME hoped to better accomplish its mission of providing as many microentrepreneurs as possible with access to credit, while enhancing its own competitive position and protecting its financial sustainability as an MFI.

**PADME INSTITUTIONAL DATA AS OF DECEMBER 2009**

<table>
<thead>
<tr>
<th>MFI-wide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year MFI established</td>
</tr>
<tr>
<td>Number of active borrowers</td>
</tr>
<tr>
<td>Outstanding loan portfolio (US$)</td>
</tr>
<tr>
<td>Portfolio-at-risk (30 days)</td>
</tr>
<tr>
<td>Operational self-sufficiency</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Health Protection Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year started Credit with Education</td>
</tr>
<tr>
<td>Number of Credit with Education clients</td>
</tr>
<tr>
<td>Credit with Education outstanding loan portfolio ($)</td>
</tr>
<tr>
<td>Number of insecticide-treated mosquito nets sold</td>
</tr>
</tbody>
</table>

*Data provided by PADME*
RCPB (Burkina Faso)

The Réseau des Caisses Populaires du Burkina (RCPB), a federation of credit union networks, is the largest MFI in Burkina Faso. RCPB’s mission is to improve the living conditions of its members and the greater community by applying principles of solidarity and individual and collective responsibility. RCPB mobilizes savings, offers a range of profitable credit products, promotes appropriate and accessible financial services for all, and is committed to democratic administration and management. RCPB was Freedom from Hunger’s first Credit with Education partner in West Africa, and RCPB’s Credit with Education portfolio continues to be the largest and strongest in the region. RCPB leadership maintains a serious commitment to product innovation, resulting in ongoing market research, experimentation and product development, and a growing range of products and services. RCPB recognizes that financial services alone cannot alleviate poverty. By participating in the MAHP initiative, RCPB sought to better accomplish its mission of improving the living conditions of clients and their communities, while protecting its own financial sustainability and longevity as an MFI.

RCPB INSTITUTIONAL DATA AS OF DECEMBER 2009

<table>
<thead>
<tr>
<th>MFI-wide</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year MFI established</td>
<td>1992</td>
</tr>
<tr>
<td>Number of active borrowers</td>
<td>111,005 (25% women)</td>
</tr>
<tr>
<td>Outstanding loan portfolio (US$)</td>
<td>110,794,596</td>
</tr>
<tr>
<td>Portfolio-at-risk (30 days)</td>
<td>8.55%</td>
</tr>
<tr>
<td>Number of active savers</td>
<td>671,909</td>
</tr>
<tr>
<td>Total savings deposits ($)</td>
<td>117,758,839</td>
</tr>
<tr>
<td>Operational self-sufficiency</td>
<td>144%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Health Protection Products</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year started Credit with Education</td>
<td>1993</td>
</tr>
<tr>
<td>Number of Credit with Education clients</td>
<td>96,415</td>
</tr>
<tr>
<td>Health savings deposits ($)</td>
<td>54,593</td>
</tr>
<tr>
<td>Number of outstanding health loans</td>
<td>23</td>
</tr>
<tr>
<td>Outstanding health loan portfolio ($)</td>
<td>25,161</td>
</tr>
</tbody>
</table>

Data provided by RCPB
Appendix B. Health Protection Service Packages

Freedom from Hunger emphasizes holistic, cohesive and sustainable approaches to tackling the pressing needs of the chronically hungry poor. With technical support from Freedom from Hunger’s MAHP initiative, each MFI has developed a unique package of health protection services based on market research and institutional capacity. These packages are currently reaching more than 80,000 microfinance clients combined.

**Bandhan: Health Education, Access to Health Products, Health Loans and Linkages with Health Providers**

Bandhan is providing its clients in India with health education on preventing common illnesses, prenatal and neonatal care, care of sick children, referrals for medical care, and planning ahead to face health expenses. This education is accompanied by access to affordable, high-quality health products such as oral rehydration solution, paracetamol, water disinfectant tablets, oral contraceptives, de-worming medications, antiseptic solution and bandages, and sanitary napkins. Both the education and health products are delivered by health community organizers and village-level volunteers selected and trained by Bandhan. Bandhan also provides health loans to cover major medical expenses.

**CARD: Health Education, Health Microinsurance, Health Loans and Linkages with Health Providers**

CARD is offering two health protection service packages in the Philippines. In more urban areas, CARD offers health loans to pay the premium for PhilHealth, a national health insurance program that provides hospital coverage to CARD clients through a partner-agent model. In a rural area, CARD has created linkages with health providers who offer discounts to CARD clients for primary care. CARD is also exploring a franchise network for distribution of affordable essential drugs. Health education on health microinsurance, financial planning for health, rational use of available health services, and preventing and treating dengue fever complement the other services offered.

**CRECER: Health Education, Health Loans and Linkages with Health Providers**

CRECER is providing its clients in rural Bolivia with linkages to health providers who regularly visit communities to conduct “health days,” providing primary care and basic diagnostic services to clients and community members. Individual health loans are available to cover referrals for emergencies or major health needs, such as surgery and extensive dental work. Health education sessions focus on prevention and treatment of common infectious and chronic illnesses, effective health seeking behavior and managing health related financial risks.

**PADME: Health Education and Access to Health Products**

PADME provides behavior-change education in rural Benin on malaria (a high economic burden in the area), common but deadly childhood illnesses and HIV/AIDS. To complement the health education, PADME is providing access to health products, such as insecticide-treated mosquito nets.

**RCPB: Health Education, Health Savings and Health Loans**

RCPB’s innovation package in Burkina Faso includes three complementary financial products: health savings to cover the cost of primary care and medicine for common illnesses; health loans to cover the cost of treatment that exceeds clients’ health savings. RCPB is also offering health education on planning ahead to pay for health expenses and advocating for better health services.