

# WHERE TO MICROFINANCE?\*

By

Gary M. Woller  
Romney Institute of Public Management  
Marriott School  
Brigham Young University  
Email: [gary\\_woller@byu.edu](mailto:gary_woller@byu.edu)

Christopher Dunford  
Freedom from Hunger

Warner Woodworth  
Marriott School  
Brigham Young University

## ABSTRACT

The microfinance industry is characterized by a "schism," or debate, between two camps that represent broadly different approaches to microfinance: the institutionists and the welfarists. How this debate is resolved has crucial implications for the future of microfinance—its guiding principles, its objectives, its clients, and its impact on the poor and poverty in general. The institutionist approach, with its emphasis on financial self-sufficiency and institutional scale, appears to have gained ascendancy over the welfarist approach, with its emphasis on direct poverty alleviation among the very poor. The institutionists, however, base their arguments on a number of debatable assertions and questionable empirical methodologies. This article critically examines some of these with the intent of placing institutionist claims in their proper perspective and tempering the hegemonic aspirations of some institutionist writers. It concludes by proposing a middle ground between the two approaches in the hope that it will lead to more productive dialogue between the two camps in the future.

*\*We would like to thank Jonathan Morduch and Didier Thys for their insights and helpful suggestions in writing this article.*

---

## Contents

1. [Two Nations Divided by a Common Language](#)
2. [Genesis and Assumptions of the Institutionist approach](#)
3. [The Relevance of the Old RDIs to Microfinance Today](#)
4. [The Perils of "Subsidization"](#)
5. [Institutional Sustainability Requires Financial Self-Sufficiency](#)
6. [Institutional "Subsidies" and the Opportunity Cost of Capital](#)
7. [Financial Self-Sufficiency as a Measure of "Successful" MFIs](#)
8. [Concluding Remarks](#)
9. [References](#)

---

Like many popular mass movements, the microfinance movement is characterized both by widespread agreement on broad objectives and by multiple rifts on key issues. The movement itself is driven by the shared commitment to provide credit for small enterprise formation and growth. It is also bound together by a common rhetoric of concern for the poor. This unity of commitment and rhetoric, however, masks a variety of philosophical approaches, types of institutions and borrowers, and delivery systems that shelter uneasily together under the big tent called "microfinance."

The movement has come to be divided by two broad approaches, or opposing camps, regarding the best way to help the poor through access to financial services: the institutionist approach and the *welfarist approach*. Jonathan Morduch (1998d) refers to this division as the *microfinance schism*. The irony is that while the worldviews of each camp are not inherently incompatible, and in fact there are numerous microfinance institutions (MFIs) that appear in practice to embrace them both, there nonetheless exists a large rift between the two camps that makes communication between them difficult.

The institutionist approach focuses on creating financial institutions to serve clients who either are not served or are underserved by the formal financial system. Emphasis lies on achieving financial self-sufficiency; breadth of outreach (meaning numbers of clients) takes precedence over depth of outreach (meaning the levels of poverty reached); and positive client impacts are assumed. The center of attention is the institution, and institutional success is generally gauged by the institution's progress toward achieving financial self-sufficiency. The best-known examples of the institutionist approach are Bank Rakyat Indonesia (BRI) and Banco Solidario (BancoSol) in Bolivia.

Institutionists argue that a primary objective of microfinance is *financial deepening*, the creation of a separate system of "sustainable" financial intermediation for the poor. Theirs is a "financial systems" approach to microfinance, in which the future of microfinance is dominated by numerous large-scale, profit-seeking financial institutions that provide high quality financial services to large numbers of poor clients. Because of their insistence on financial self-sufficiency, institutionists eschew subsidies of any kind. The institutionist position is articulated

in virtually all the literature coming out of the Ohio State University Rural Finance Program, the World Bank and the Consultative Group to Assist the Poorest (CGAP) in the World Bank, and USAID. It is also found in the many writings of Maria Otero (ACCION International) and Elisabeth Rhyne (formerly of USAID) (see, for example, Otero and Rhyne, 1994). Most published literature in the field of microfinance espouses the institutionist view.

Welfarists, on the other hand, emphasize depth of outreach. Welfarists are quite explicit in their focus on immediately improving the well-being of participants. They are less interested in banking per se than in using financial services as a means to alleviate directly the worst effects of deep poverty among participants and communities, even if some of these services require subsidies. Their objective tends to be self-employment of the poorer of the economically active poor, especially women, whose control of modest increases of income and savings is assumed to empower them to improve the conditions of life for themselves and their children. The center of attention is the "family." Like the institutionists, welfarists have assumed more impact than they actually have been able to document. The most prominent examples of welfarist institutions are the Grameen Bank in Bangladesh and its replicates elsewhere, and FINCA-style village banking programs in Latin America and, more recently, in Africa and Asia.

Obviously, there are fundamental differences between the two camps. These differences, moreover, are much more than merely philosophical debates. How they are resolved has crucial implications for the future of microfinance-its guiding principles, its objectives, its clients, and its impact on the poor and on poverty in general. Our purpose in this paper is first, to trace through these implications; second, to evaluate critically the arguments, assumptions, and methodologies of the institutionist camp; and third, to offer our views on how the two approaches might be reconciled.

Before proceeding, however, we should make our position clear. We are welfarists. Moreover, we have concerns about the direction that the institutionists are attempting to push the industry. The institutionists clearly have won the debate to date. They have defined "best practices," and the most prominent donors and even the most prominent welfarist practitioners have embraced that definition. The institutionists have been more articulate and persuasive and certainly more prolific in their writing, and their message has been more in tune with the times, the currently dominant culture of laissez-faire business.

We should also add that we have tremendous sympathy for the institutionist position, and we share the institutionists' vision of financial deepening. But this is not the limit of our vision. We foresee an industry in which the two approaches work in tandem to reach different, but equally deserving, populations of poor clients. We do not eschew profits, but neither do we eschew "subsidies." Nor, finally, do we dispute the institutionists' principled commitment to poverty alleviation.

Our specific concern is that in advocating their position, some prominent institutionists have gone too far-to insist that all MFIs adopt institutionist values and "best practices," to attempt active suppression of the welfarist point of view, and to cause the expansion of "best practices" to become antithetical to the welfarist objective of direct poverty alleviation among the very poor. Thus we believe it is important that the many pronouncements emanating from the

institutionist camp be rationally challenged in terms of logic and fact, which we attempt to do in this paper. Our purpose is not to invalidate the institutionist view, but rather to put it into perspective, temper its hegemonic aspirations, and argue for the vision in which both approaches can work simultaneously toward shared or disparate goals. Both approaches are needed-in whatever combination possible.

[Top](#)

---

## **TWO NATIONS DIVIDED BY A COMMON LANGUAGE**

In thinking about the rift between the institutionist and welfarist camps, we are reminded of the quote by George Bernard Shaw that Great Britain and the United States are "two nations divided by a common language." Although the two camps share a common commitment to microfinance services and a common rhetoric of concern for the poor, many in the industry mistake this unity for a unity of purpose.

The stated ultimate goal of both camps is poverty reduction. Yet the practical objectives each camp has set for itself diverge. Each has defined "poor" differently, and each has articulated different visions of how the poor can be helped by increased access to microfinance services. The practical implications of these differences between the two camps are at least threefold: (1) differences in the population segments served (the not-so-poor true entrepreneurs vs. those who struggle on the margins of survival); (2) differences in the designs (and the reasons for the designs) for service delivery to these populations (lending to individuals vs. small solidarity groups vs. large village banks); and (3) differences in the institutional structures and financing to support these services (social service NGOs vs. community-based credit unions and community banks vs. commercial banks and finance companies).

These differences are legitimate, if and only if the objectives from which they derive are considered equally legitimate. But they are not considered equally legitimate by many persons in each camp. Heightening the potential for conflict is the apparent unity of purpose in the microfinance community, which has fostered a mentality of "one way" for microfinance. Donors have become confused by the veil of unity and the argument that a common set of standards is needed to advance the apparently common agenda. There has developed in the 1990s a struggle to define that "one way" for both microfinance practitioners and donors.

### **The Institutionist Attack**

The conflict between the two camps is driven by the belief that the alternative approach threatens the fulfillment of the movement's broadly shared goal-poverty reduction. Institutionists believe that successful poverty reduction requires massive scale, given both the worldwide prevalence of poverty and the estimated demand for microfinance services. Rough estimates put the total demand for microcredit at \$12.5 billion by 2005 and \$90 billion by 2025 (or 10 and 30 percent respectively of the world's low-income entrepreneurs, CGAP, 1995b), or alternately at between

100 and 200 million persons (Christen et al., 1995). By comparison, the total microlending portfolio today is estimated at only \$2.5 billion (GGAP, 1995b).

But massive scale in turn requires massive financial resources-far beyond the ability of donors to provide. Even if donors had sufficient resources, they are subject to fads, have their own agendas, and are not a reliable long-term source of funds. It is from this "recognition of scarcity" (Gonzalez-Vega, 1993, p. 25) that springs the institutionists' concern for financial self-sufficiency. Moreover, the only way to attract the requisite financial resources is by tapping into private sources of capital. But widespread access to private capital in turn requires that MFIs be well run, operate efficiently, and, most important, be profitable. Finally, to satisfy the world demand for microfinance services, and thus make a dent in world poverty, it is not sufficient that a relatively small number of MFIs tap into private capital. It is necessary to create an entirely new financial system consisting of a large number of privately financed, large-scale financial intermediaries that provide financial services to the poor.

To guide the industry's transition to for-profit status, institutionists have spent much time in an attempt to design a set of "best practices" for industry adoption. Best practices refer to those practices that improve institutional efficiency and effectiveness in areas such as management and management systems, finance and accounting, marketing, service delivery, or product design and development. The identification, standardization, and widespread adoption of "best practices" are believed to be an essential step on the path to industry-wide financial self-sufficiency, capital market access, and maximum outreach to poor clients.

The perceived welfarist threat to the institutionist vision is that its relative uninterest in the issues of scale, "best practices," and financial self-sufficiency-and thus its continuing dependence on donor "subsidies"-threatens to undermine the march toward industry-wide financial self-sufficiency and all that entails. Implied herein is the belief that true concern for the poor requires the kind of scale of microfinance services that only the institutionist approach can deliver. This belief is captured by Christen et al. (1995, pp. viii, 8) who write that "it is scale, not exclusive focus, that determines whether significant outreach to the poorest will occur. . . . Programs that do not attempt to achieve large scale outreach are simply not making a dent in the global problem."

Institutionists have aggressively evangelized the microfinance community to have their views adopted, and they have enjoyed much success. That prominent institutionists have occupied at times key positions at the World Bank, CGAP, and USAID has greatly aided their cause, as has the impressive body of literature produced by institutionist writers. The influence of institutionist thought is clearly evident in that institutionist terms and concepts (e.g., sustainability, outreach, subsidy, subsidy dependence index, and best practices) have become the *lingua franca* of the microfinance industry.

The evangelization of institutionist precepts also has taken place within the donor community. Donors are urged to "husband microfinance by creating an environment that rewards success [progress toward financial self-sufficiency] and punishes failure [unsatisfactory progress toward financial self-sufficiency]. To culture strains of [MFIs] that balance sustainability and outreach, donors must lubricate entry and exit" (Schreiner, 1997a, p. 1). In the institutionist worldview, the

donor role "should essentially be to underwrite the commercialization of microenterprise finance" (Christen et al., p. ix).

### **The Welfarists React**

Welfarists distinguish themselves from institutionists primarily by their value-based commitment to serve the *very* poor. While they acknowledge the benefits and necessity of scale in attacking world poverty, their inclination is to place greater weight on depth of outreach than on breadth. They do not differentiate themselves by any lesser degree of commitment to sound operational and management practices or to institutional efficiency or effectiveness. But whereas they believe that increasing financial self-sufficiency is generally desirable, they are unwilling to take the next step-to accept that financial self-sufficiency is necessary to fulfill their institutional missions.

The perceived threat to welfarists posed by the institutionist approach is multifold. First is the belief that the commercialization of microfinance and the need to satisfy the "selfish" demands of outside investors will inexorably lead to profit motive displacing social mission. According to Renee Chao-Beroff (1997, p. 105):

There is thus great risk of diverting the newly created professor of 'people's banker' or of the 'micro-financing for the poor' from its proper objective. The fact is that if priority is given to making [MFIs] profitable as quickly as possible, then the poorest will automatically be marginalized in favor of populations that are supposed to be more creditworthy. Similarly, the rural areas, in favor of urban areas, which are more densely populated and provide better commercial opportunities.

Second, in a philosophical sense the fear is that the commercialization of microfinance will divert the industry from its "spiritual foundation," which was and is the movement's animating force. The result is a profitable but soulless endeavor. According to Rodey (1997, p. 12), "Spiritual principles linked to sound financial principles must be a central tenant of the microfinance movement so that this noble effort to eradicate poverty does not become simply business as usual, with money at the bottom line. Again, the issue is not only whether we reach the numerical goal, but *how* that will determine the outcomes."

Summarizing the first and second concerns, the perceived threat is that if the industry embraces the institutionist position, it will have embarked on a potentially errant path that will have profound impact both on the industry itself and on those whom it serves. Thomas Dichter (1996, p. 259) captures the essence of these two concerns when he writes that the overarching emphasis on financial self-sufficiency

has consequences . . . for the soul of many NGOs (compassion vs. making a buck) both in terms of outreach to the very poor and in terms of impact and effect of recipients. . . . NGOs who shift into sustainable credit programs may be losing their real competitive advantage: the capacity to reach the very poorest and engage in a variety of activities that help people change, but which cannot necessarily be financially supported by recipients of assistance. . . . Financial self-sufficiency will bring in its train deep changes in the ways NGOs do work, not to mention who and what they are.

Third is the concern that the call for donors to withdraw support from "unsuccessful" programs amounts to the attempted suppression of dissident viewpoints, which, if heeded, will result in a

"broad-brush resource allocation on the basis of good institutional performance alone" (Rogaly, 1996, p. 106), regardless of actual program impact. Fourth, the drive to define and codify "best practices" risks the imposition of a blueprint approach to microfinance that will stifle innovation and experimentation in the design of new products and delivery systems for the very poor. (For example, MFIs will hew strictly to "best practices" for fear of losing donor support.)

[Top](#)

---

## **GENESIS AND ASSUMPTIONS OF THE INSTITUTIONIST APPROACH**

To understand the arguments of the institutionists, it is helpful to trace the genesis of their thought. Their position is a direct outgrowth of the experiences of Rural Development Institutions (RDIs) during the 1960s and 1970s and the lessons derived thereof by researchers at the Ohio State University Rural Finance Program. During the stated time period, development agencies and Third World governments funneled large sums of money to numerous state-run RDIs that provided agricultural credits to poor farmers. As a general rule, the RDIs offered credit at highly subsidized terms to farmers, targeted credit to specific uses, and did not offer savings services.

From the beginning these RDIs were plagued by a number of problems, including a grant mentality among clients, high overhead and transaction costs, and heavy corruption. In terms of impact, these programs produced only a limited production response among farmers, tended to be co-opted by wealthy interests who valued the loans primarily for their subsidy value, and suffered from abysmal repayment rates. Not surprisingly, therefore, donor money eventually dried up, and the RDIs almost universally failed (see Adams, Graham, and Von Pischke, 1984).

According to institutionist literature, several lessons could be learned from the experience of the RDIs. [See Gonzalez-Vega (1993, 1994) for an in-depth discussion of the "lessons learned."] But above all, "the most severe deficiency of the traditional rural financial organizations . . . has been their lack of institutional viability" (Gonzalez-Vega, 1993, pp. 23-34). In hindsight, donors proved both unable and unwilling to provide long-term funding to support the RDIs. This lack of institutional viability in turn led to even lower repayment rates because borrowers had little incentive to repay loans to institutions whose futures were in doubt.

The experiences of the old RDIs and the lessons learned thereof form the basis for the institutionists' approach to microfinance today. Most of their prescriptions should be understood within this light.

In the following sections, we offer some critical observations of the "lessons learned" that inform the institutionist worldview. Some of our criticisms are influenced by Jonathan Morduch's (1998d) earlier critique of institutionist thought. For the purpose of brevity, and to avoid treading too much on ground already trod by Morduch, we focus our criticisms on the following "lessons learned" and their subsidiary assertions:

- The experiences of the old RDIs have direct relevance to the microfinance industry today.
- Subsidized institutions inherently are inefficient, unable to innovate or implement new technologies, and unable to achieve significant scale.
- Institutional sustainability requires financial self-sufficiency.
- Institutional "subsidies" are determined by the selfish opportunity cost of capital.
- Financial self-sufficiency is the measure of a "successful" MFI.
  - i. Financial self-sufficiency is achievable for many, if not most, MFIs.
  - ii. Profit-seeking MFIs can maintain a commitment to very poor clients while simultaneously earning the high returns on equity (ROE) demanded by their "selfish" investors.
  - iii. Financial self-sufficiency is a rational objective of many, if not most, MFIs.
  - iv. Financial self-sufficiency is a means and not an end.

Again, we do not offer the following critique in an attempt to dismiss institutionist views. Rather, we hope that consideration of the issues we raise will encourage a less doctrinaire promulgation of institutionist claims and thereby help to open the door to a greater spirit of accommodation in each camp.

[Top](#)

---

## **THE RELEVANCE OF THE OLD RDIs TO MICROFINANCE TODAY**

Just how relevant were the experiences of the old RDIs to the microfinance industry today? Very relevant, according to Adams and Von Pischke (1992), "both programs involve similar assumptions, both contain similar policies, both tussle with definitional issues, both use the same type of project justification, and, as a result, both are likely to encounter similar problems" (p. 1463). They thus conclude that such similarities portend similar results: "Many of the loans being made to microenterprises will not be repaid, most of these programs are likely to be transitory, and many of the targeted borrowers will be materially assisted in the long run through programs that increase their debt" (p. 1468).

The equating of the current microfinance industry with the old RDIs, however, ignores several fundamental differences between the two. Numerous technical innovations (e.g., group lending and village banks) have significantly reduced the information asymmetries and transaction costs of providing financial services to the poor relative to the earlier experience. In contrast to the old RDIs, the microfinance industry today emphasizes small-scale, short-term lending; the need to charge market or near-market rates of interest; the importance of mobilizing saving among the poor; the illusory nature of tying loans to specific activities; the value of convenience to poor borrowers; low overhead and simplified transaction processes; and social collateral to ensure

repayment. While undoubtedly many MFIs suffer from severe institutional or program deficiencies, the industry today includes a large number of well run private MFIs and a handful of well run government programs, all with successful long-term track records of expansion, high-quality client service, and attracting financial support. In well run programs it is not unusual to find repayment rates of 95 percent or better.

Finally, many MFIs today take seriously their obligation to produce client impact. Of the relatively small number of MFIs that have been evaluated for client impact, "the findings indicate positive impacts across different types of programs, contexts, socioeconomic groups, and gender of clients" at the enterprise, household, and individual levels (Sebstad and Chen, 1996, p. 20). To be sure, the industry has a long way to go in developing social impact measurement systems and in credibly documenting the impact of microfinance, but it is still light years ahead of where it was back in the "bad old days."

Thus on virtually every major count, the microfinance industry today is vastly different than the old RDIs of the 1960s and 1970s. While equating the two might make a handy strawman to buttress institutionist policy prescriptions, it is nonetheless inaccurate.

[\*Top\*](#)

---

## **THE PERILS OF "SUBSIDIZATION"**

Drawing on the experience of the old RDIs, institutionist writers have reached a number of sweeping conclusions about the perils of "subsidization." In response, a number of "exceptions" merit mention.

*Virtually all* the pathbreaking innovations in the microfinance industry have come from "subsidized" MFIs. Perhaps two of the most significant innovations in the industry-group lending and village banking-were developed by mission-driven MFIs (e.g., Grameen Bank, ACCION, and FI NCA), each heavily dependent on donor funding at the time of innovation. Donors have proven willing to date to invest in (or "subsidize") the experimentation and innovation responsible for shifting the industry's production possibility frontier to where it is today.

Implied by the argument that "subsidized" MFIs are inherently inefficient (or less efficient than for-profit institutions) is that the absence of a profit motive fails to create the proper incentives for management. Morduch dispatches this argument by correctly pointing out "maintaining 'hard' budget constraints is the key [to efficiency], not maximizing profits" (p. 12). That and management commitment to running an efficient operation. Over the last several years, large numbers of donor-dependent MFIs have made tremendous strides in improving administrative and operational efficiencies, and the same MFIs are at the forefront of technological innovation today. These clearly are not the RDIs of yesteryear.

The institutionists' sweeping indictment of "subsidization" is so broad in scope that it must also stand as a serious indictment of the entire nonprofit industry (or at least the vast majority of nonprofits who rely on donor support). Moreover, it implicitly idealizes the for-profit industry. The argument that "subsidized" institutions are inefficient and cannot achieve significant scale ignores the large number of well run nonprofits, both inside and outside of the microfinance industry, that have achieved significant scale (e.g., Grameen Bank, BRAC, FINCA, CARE, Catholic Relief Services, Save the Children, Christian Children's Fund, Red Cross, United Way, March of Dimes, and Greenpeace). It may be the case that profit-seeking firms tend to surmount more easily the obstacles to scale (although this assertion remains unproven in microfinance), but this is different from the blanket assertion that "subsidization" precludes significant scale.

There exist thousands of well run nonprofit organizations that have thrived and grown, despite heavy reliance on donor funding. At the same time, one need not look far to find poorly run for-profit firms that suffer from serious managerial or operational inefficiencies. For-profit firms cease to exist, and they do so in large numbers, including even commercial banks. In fact, far more for-profit firms fail than succeed.

The point is not to argue that one form of organization is inherently superior to the other, but to point out the obvious fallacy of making such sweeping claims about either. In each sector there are well run and poorly run organizations, efficient and inefficient organizations, large-scale and small-scale organizations, innovative and static organizations, and sustainable and unsustainable organizations. The sweeping assertion that for-profit organizations are always inherently superior to nonprofit organizations in each of the above areas is more a reflection of one's personal bias than it is an objective assessment of each of the sectors.

The fact is that the old RDIs constituted one form of organization that existed at one point in time. One simply cannot extrapolate directly from them to existing MFIs or, by logical extension, to the entire nonprofit industry.

[Top](#)

---

## **INSTITUTIONAL SUSTAINABILITY REQUIRES FINANCIAL SELF-SUFFICIENCY**

It is true that donor funds are limited, and it is true that donors can be fickle, faddish, and unreliable. The argument that institutional sustainability requires financial self-sufficiency, however, obscures the context under which donors withdrew their support of the old RDIs. The old RDIs were highly inefficient and ineffective programs that suffered huge financial losses and had questionable or harmful impacts on their intended beneficiaries. It is thus hardly surprising that the donors eventually withdrew their support. It would have been surprising if donors had not withdrawn their support.

There is much semantic confusion surrounding the word "sustainable." In general terms, sustainability implies institutional permanence-it captures the idea that an institution is and will continue to be a "going concern." In line with this idea, Navajas et al. (1998, p. 5) define sustainability as "to reach goals in the short-term without harming your ability to reach goals in the long-term." Similarly, Edgcomb and Cawley (1994, p. 77) define sustainability as the ability of an organization to "sustain the flow of valued benefits and services to its members or clients over time." (Both sets of authors, however, later clarify their remarks to make clear that, in their view, the only way an MFI can become truly "sustainable" is to reach financial self-sufficiency. Edgcomb and Cawley (p. 86), for example, argue that "sustainable institutions can and must [emphasis ours] meet 100 percent autofinancing for their credit operations.")

We propose the following definition of sustainability offered by Brinkerhoff (1991, p. 22): "Sustainability can be defined as the ability of a program to produce outputs that are valued sufficiently by beneficiaries and other stakeholders that the program receives enough resources and inputs to continue production." This definition transforms the debate about sustainability, for it opens the very real possibility that an MFI could be viable in the long-term, despite dependence on donor funding.

This definition also requires that we recast the way we think about donors. It is odd to us that all economic actors are assumed to be rational, with the important exception of donors. In the institutionist literature, donors are portrayed as motivated almost solely by "irrational" impulses: donors are fickle, donors are faddish, and donors are unreliable. The possibility that there exist rational donors who seek to maximize social returns on social investments is rarely, if ever, allowed.

We argue that donors are as rational as any other economic actor is. It is this rationality that led them to abandon the old inefficient and ineffective RDIs. It is true that donors can at times be fickle, faddish, and unreliable (just like other economic actors). But it is by no means certain that rational donors (in particular, governments who "remain committed to poverty alleviation well after international agencies have moved on to the next Big Idea") will abandon microfinance "if subsidized microfinance proves to deliver more bank for buck than other social investments" (Morduch, p. 1998c, p. 44). Again, that so many MFIs and other nonprofits have survived and thrived for so long would appear to belie the rather sweeping assertion that institutional sustainability requires financial self-sufficiency. (Freedom from Hunger, for example, has operated on "subsidies" for fifty-two years now, far longer than the average life span of a for-profit business.)

[Top](#)

---

## INSTITUTIONAL "SUBSIDIES AND THE OPPORTUNITY COST OF CAPITAL

The term "subsidy" is used in the institutionist literature to describe any financial resource received by an MFI at below market prices, which includes *all* types of donations. We could just as well talk about donations instead of subsidies, but the fact that the two carry different connotations has important implications for the tenor of the debate. The term "subsidy" is a loaded word that carries highly negative connotations. As used, the term implies that any resource received at below market cost is somehow tainted. Thus, like substituting the word debt for *credit* (another semantic trick in institutionist literature), its effect is to shock the reader or to play into preexisting biases.

We propose an alternative definition of "subsidy." Our definition requires a distinction between a "social" investor and a "selfish" investor. There are two kinds of social investors. The first seeks solely a social rate of return in the form of, for example, higher incomes for the poor, better nutrition, clean water, or lower infant mortality rates. (Most donors fall into this category.) The second seeks both a social and a financial return (e.g., capital gains, interest, and dividends). This investor is willing to accept a "below market" financial return in exchange for a compensatory amount of social return. A selfish investor, on the other hand, seeks solely a financial return. The investor may be interested in the social mission of the institution, but any interest in the social mission is subordinated to the selfish motives behind the investment.

For the first kind of social investor, a subsidy is an investment in an MFI at an expected social return below the social opportunity cost of capital, which is the expected return from foregone social investments. For the second kind of social investor, a subsidy is an investment at an expected return below the combined opportunity cost of capital, which is the expected return from foregone social and selfish investments. For the selfish investor, a subsidy is an investment at an expected return below the selfish opportunity cost of capital, which is the expected return from foregone selfish investments.

Using the above definition of subsidy, a donor-funded MFI that has achieved significant outreach and impact such that its social benefits exceed those of alternative social investments is not considered subsidized. On the other hand, a donor-funded MFI that has poor outreach and poor impact such that its social benefits are less than those of alternative social investments is considered subsidized. In the first case, rational donors can be expected to continue to support the MFI. In the second case, rational donors can be expected to withdraw their support.

At the same time, a for-profit MFI that yields a below-market ROE for similar risk-adjusted investments is considered subsidized. The exception is the case in which private investors seek social returns in addition to selfish returns, but then by definition these are social investors and not selfish investors. In this case the MFI is not considered subsidized if its social return compensates the investor for foregone selfish returns.

---

## **FINANCIAL SELF-SUFFICIENCY AS A MEASURE OF "SUCCESSFUL" MFIs**

Two core assumptions of the institutionist camp are (1) financial self-sufficiency is achievable for many, if not most, MFIs, and (2) profit-seeking MFIs can maintain a commitment to very poor clients while simultaneously earning the market ROE demanded by "selfish" investors. The validity of these two assumptions is key to the institutionist position. If both are true, then the institutionist vision for microfinance would appear compelling. But if either is false, then the institutionist position collapses. Given the stakes, the industry can reasonably demand fairly compelling evidence before embarking down this path. Instead, the institutionist arguments are almost uniformly anecdotal and/or based on sample sets that typically are both small and biased.

The study cited most frequently by institutionist writers as "proof" of the above assumptions is the Christen et al. (1995) study of "successful" MFIs. The eleven MFIs examined were not selected at random, but according to three criteria: breadth of outreach (number of borrowers), depth of outreach (average loan size), and reputation for financial strength. In other words, the MFIs examined in the study were selected because they were big, financially or operationally self-sufficient, and had very poor clients.

After examining the eleven MFIs, the authors reached the following conclusion: "These results show no evidence of a direct trade-off between outreach, either deep or extensive, and financial viability. The two goals are clearly not in opposition" (p. 27). That is one possible interpretation. Of course, an alternative interpretation of the findings is that the authors hewed closely to their selection criteria. The authors reach another problematic conclusion from the data set. They write that "among high-performing programs, no clear trade-off exists between reaching the very poor and reaching large number of people. In fact, mixed programs that serve a range of clients, such as BancoSol and BRI, have successfully reached very poor clients. . . . In short, is it scale, not exclusive focus, that determines whether significant outreach to the poorest will occur" (p. viii). In essence, what the authors argue is this:

- a. BancoSol and BRI have achieved significant scale;
- b. BancoSol and BRI reach very poor clients; therefore
- c. Significant scale is necessary to reach very poor clients.

The reader will note that this is an example of non sequitur reasoning. Regardless of the findings, however, the data set itself is totally insufficient to draw any meaningful inference about the industry as a whole.

To their credit, the authors add the caveat that "because three of the five fully self-sufficient institutions are in Indonesia, this assessment cannot state conclusively that full profitability is routinely possible" (p. 27). Unfortunately, this caveat does not stop others from doing precisely that. CGAP *Focus Note 2*, for example, asserts that the Christen et al. study demonstrates conclusively that "The conventional wisdom is quite wrong. Micro-finance institutions can

[emphasis ours] and indeed need to be self-sustaining if they are to achieve their outreach potential providing rapid growth in access to financial services by poor people" (1995a, p. 1).

### **Is Financial Self-Sufficiency Generally Achievable?**

The conclusion that MFIs can be financially self-sufficient is an artifact of the sample set chosen. Different sample sets can yield very different conclusions. For example, separate studies of nine Western African MFIs (Webster, 1995) and five South Asian MFIs (Bennett et al., 1996) with reputations of excellence found that most had achieved significant depth of outreach, but that revenues covered only a relatively small percentage of operating expenses (only 30 to 40 percent for the African MFIs). For the South Asian MFIs, the authors conclude that financial self-sufficiency is a very difficult proposition for MFIs working in harsh socio-economic conditions and geographically isolated communities.

More generally, the CGAP Secretariat reports that the "vast bulk" of MFIs "do not see the potential for their specific institution to become financially viable in the foreseeable future, and expect to continue their dependence on donor funds for their operations and survival" (Malhotra, 1997, p. 8). This is a decidedly less optimistic conclusion than the one cited earlier in the CGAP *Focus Note*. We suspect that a randomly drawn and representative sample of MFIs likely would portray a vastly different picture of the microfinance industry and financial self-sufficiency than that of the relatively small handful of MFIs touted by institutionist writers.

### **Financial Self-Sufficiency and Institutional Commitment to the Very Poor**

Even if we accept that financial self-sufficiency is generally achievable, what will keep profit-seeking MFIs from straying too far from their mission to serve the very poor? According to Maria Otero (1994), this protection will come in the form of board members who are to ensure that "maximizing returns does not overtake the priority objective of reaching the poor" (p. 98). In other words, "who invests in these institutions and what values they bring as shareholders will either safeguard or compromise the social commitment of the institution" (Otero, 1994, p. 102). But what confidence can we have that boards of directors will routinely safeguard the social commitment of MFIs? We suggest that, in answering this question, the industry consider the following caveats.

A key motivation for transforming MFIs into for-profit financial institutions is because "a financially self-sufficient [MFI] could attract capital from selfish private investors" (Schreiner, 1997b, p. 2). But as we have seen, selfish investors seek a financial rate of return at least equal to the risk-adjusted expected return of alternative selfish investment opportunities. Their primary interest in the social commitment of the organization is whether and the extent to which it increases or reduces their ROE. Furthermore, in profit seeking, publicly held institutions, maximizing returns is *the* priority objective. The social mission of the institution is inevitably a subordinate, albeit important, objective. To make the social mission equal or superior to maximizing returns implies a willingness to trade off selfish returns for social returns, which, according to institutionist reasoning, is tantamount to subsidy.

In for-profit institutions, the board's fiduciary duty is to represent the interests of the owners-not those of the clients. When profit and social mission come into conflict (as they inevitably will at times), the board is bound to give greater weight to the interests of the owners. This is not to say that the two interests always will conflict or that the board necessarily must dismiss the interests of the clients if a conflict occurs. However, if the board consistently sides with the clients over owners, it will have failed in its duty as a representative of the owners, and it will have created a situation in which selfish investors involuntarily "subsidize" the social mission of the institution.

A way to avoid this conflict is to ensure that ownership, or a significant portion thereof, remain in the hands of social investors who are willing to trade off selfish returns for social returns. According to institutionist logic, however, this solution is not acceptable, for two reasons. First, this constitutes social investment, but social investment is tantamount to subsidy, and subsidy is not acceptable. Second, as institutionists frequently point out, the world supply of social investment is insufficient to meet the world demand for microfinance services. To satisfy world demand, MFIs must attract large amounts of selfish investment, which in turn creates a de facto change both in institutional mission and in the nature of institutional accountability to investors. It implies, moreover, that policies to increase social returns but that diminish selfish returns constitute a subsidy, and subsidy is not acceptable.

Thus we see that by their rigid definition of subsidy and by their opposition to subsidy in principle, institutionists have boxed themselves into a rhetorical corner. Either the MFI is fully financed by selfish investors at a market ROE, or the MFI is subsidized, and subsidy is not acceptable.

Two avenues of escape, however, lie open. One, the standard institutionist position (e.g., Christen et al.), is to argue that there are no real tradeoffs between the selfish mission and the social mission of profit-seeking MFIs. They are, however, far from proving their point (see below), and they bear a considerable burden of proof. (Most practitioners remain skeptical on this point.) Another is to relax the rigid definition of subsidy and the objection to subsidy in principle and accept the legitimacy of social investment.

Some additional insight on this question can be gleaned from the institutionists' two flagship MFIs, BRI and BancoSol. If we use average loan size as a proxy for depth of outreach, neither institution appears to have achieved significant depth of outreach. The average loan size at both BancoSol and BRI is over \$500 (Gonzalez-Vega, 1997; Seibel and Parhusip, 1998), which far exceeds the average loan size of around \$100 for MFIs that focus more sharply on poverty alleviation (Morduch, 1998c). Indeed, the study of five Bolivian MFIs by Navajas et al. (1998) found that around 97 percent of BancoSol's borrowers were among the marginally poor (those slightly above or below the poverty line) or among the not-so-poor.

Commercial banks that have entered microfinance so far have fared even worse in terms of depth of outreach. An examination of seventeen commercial banks offering microfinance services found loans sizes ranging from \$500 to several thousand dollars (Bayadas et al., 1997) with an average loan size of "not more than \$1400." This is hardly an auspicious beginning. In sum, "Few of the programs that cover all costs have proven able to reach the core of poor households.

The typical borrower from financially self-sufficient programs . . . tend to be among the 'better off' of the poor or are even slightly above the poverty line" (Morduch, 1998c, p. 5).

Institutionist writers counter this criticism by arguing that it is the absolute number of very poor reached who matter, not the relative proportion of very poor clients. According to Navajas et al. (p. 26), "Just because the proportion of clients among the poorest of the poor [is lower] . . . does not mean that the [MFIs] served few households in this class. An estimate of breadth of outreach is the absolute number of poorest households reached." The argument is that a large-scale MFI with significant breadth but proportionately little depth of outreach will still reach more very poor clients than a small-scale, poverty-focused MFI. (This is one of the key findings of the Christen et al. study. Note also the *a priori* assumption that poverty-focused MFIs are necessarily small-scale.)

Even if we grant this argument, BancoSol still has not achieved significant depth of outreach. Of its 30,000 borrowers, only 3 percent, or 900, were among the very poor. For that matter, none of the five Bolivian MFIs examined by Navajas et al. achieved significant depth of outreach as measured by absolute numbers of very poor borrowers. In total, the five MFIs reached only around 2600 very poor borrowers.

Navajas et al. rationalize their findings three ways. First, they argue that the few very poor borrowers reached will have longer-term access to financial services because "financially sustainable" MFIs will be around for the long term, while poverty-focused, but financially unsustainable, MFIs will not. (We have already dealt with this argument.) Second, that the MFIs failed to reach significant numbers of the very poor "does not necessarily mean that they failed. [They] have other goals besides depth of outreach. For example, all five keep an eye on their profits" (p. 27). Third, they conclude that "the poorest of the poor may not be creditworthy . . . This means that donors and governments, if they have the welfare of the poor in mind, may need to step back and to think about whether public funds meant to help the poor could be spent in a better way. After all, microcredit may not always be the best way to lift the poor out of poverty" (p. 27, 37).

What can we conclude from the available evidence? It is still too early in the evolution of the industry to state definitively whether financial self-sufficiency is achievable for most MFIs or whether profit-seeking MFIs can achieve significant depth of outreach, although to date the sum of the evidence is not favorable on either count. Time and further investigation will clarify this.

Certainly, however, there is insufficient evidence to support the conclusion that "the poorest of the poor may not be creditworthy." This is a rather sweeping inference based on the experience of five Bolivian MFIs for an industry of over one thousand institutions, about most of which we know little, if anything. Moreover, it begs the following question: How easily and based on what standard of evidence is the industry prepared to abandon the movement's animating vision of poverty alleviation among the very poor?

By way of final comment on this topic, Elisabeth Rhyne asserts that MFIs that focus on the very poor "bear the burden of proving that they are as efficient and low cost in operations as technically possible. If not, subsidies support inefficient operations, and concern for the poor,

however earnest, can become an excuse to avoid making difficult improvement" (1998, p. 6). We have no problem agreeing with Rhyne on this point. There can be no doubt that there are poorly run MFIs that seek to justify their inadequacies by appealing ostensibly to some commitment to target a very poor or hard-to-reach clientele. We would only point out, however, that such concerns cut both ways. We would thus assert in response that MFIs that focus on financial self-sufficiency bear the burden of proving that they are truly reaching the very poor. If not, then they are pushing the microfinance industry to abandon its value-based roots, and concern for the poor, however earnest, can become simply an excuse to make a buck.

### **Financial Self-Sufficiency and Economic Rationality**

The institutionist approach takes a financial systems view—that is, it examines important issues in microfinance from the perspective of building a poor-persons' financial system. Thus it tends to extrapolate from the "system" to the individual MFI. In other words, what is good for the system is good for the individual MFI. This reasoning is known as the "fallacy of composition:" what is good for the one is good for the whole, and vice versa.

It may be that the objective of an individual MFI is scale and financial self-sufficiency, but then again it may not. It is entirely possible that an MFI has priority objectives, such as reaching a particular segment of the poor, that do not require full financial self-sufficiency. For a number of reasons, it may also not be in an individual MFI's interests to become fully financially self-sufficient. (For example, full financial self-sufficiency might be seen as inconsistent with the MFI's priority objectives.) There is nothing inherently wrong with being small or with using donor funds to extend financial services to the poor, nor does either of these imply that an MFI is unworthy of donor support, particularly if its clients belong to a hard-to-reach population.

To insist that donors withhold or withdraw support from "unsuccessful" MFIs is in many cases tantamount, we suspect, to trying to compel them to behave in an otherwise economically irrational and potentially counter-productive manner. Economists refer to this as introducing "distortions" into the marketplace. What matters is "how subsidies are used" (Bennett, 1996, p. 287). In other words what matters is that the MFI produce improved social welfare. Quoting Jonathan Morduch (1998b, p. 5), "as long as [an MFI] delivers ample social benefits to its clients and can continue to receive sponsorship, [its] subsidies should be judged by their costs and benefits."

This line of argument raises a related issue that is at the heart of the institutionist versus welfarist debate: the need to perform impact assessments of microfinance programs. If, as institutionists claim, profitability is sufficient to demonstrate social impact, then impact assessments are an unnecessary redundancy, and MFIs should "concentrate on evaluating the quality of services and their institutional setting" (Rhyne, 1994, p. 107), which translates usually to the narrow measurement of progress toward financial self-sufficiency.

If, on the other hand, we assume that, as evidence now suggests, the "vast bulk" of MFIs will depend on "subsidies" to one extent or another indefinitely, then the need to document the impact of microfinance moves to the top of the agenda. (Also implied is the need to identify, target, and reach the core poor households. Something, quite frankly, welfarist institutions have not done

well enough.) This is particularly true when we consider, as Elisabeth Rhyne (1998, p. 8) points out, that "important voices" outside of microfinance argue "that the very poorest people are not reached by even the most poverty-oriented microcredit programs, and that credit is not an appropriate service for people on the margins of survival." But it also implies, as Jonathan Morduch notes, and as we have implied above, that the industry "take public economics more seriously" and acknowledge that "even when poverty-focused programs do not meet all of their expenses, the benefits of ongoing subsidization may exceed their costs" (Morduch, 1998c, p. 6).

### **Financial Self-Sufficiency: A Means to an End?**

Charles Goodhart, a former official at the Bank of England, is given credit for the maxim, also referred to as Goodhart's Law, "If an economic statistic becomes the focus of attention, that statistic is likely to distort." We argue that there is reason to believe that Goodhart's Law applies to microfinance. In particular, we would argue the following. If MFIs and donors give the symbol concept of financial self-sufficiency too great a focus, then a force for change is created. That is, if the symbol becomes all-important, the thought behind it becomes lost, and it is transformed into an end unto itself. The movement to the all-dominating concept that financial self-sufficiency is synonymous with "success" is subtle, and not all involved will agree that it has occurred. Nonetheless, if an MFI finds, for whatever reason, that financial self-sufficiency has become a symbol of "success" (particularly among donors or investors), then the approach to managing the institution will change.

Institutionist writers are quick to argue that such concerns are both ill founded and nonproductive. According to Elisabeth Rhyne (1998, p. 7), for example, "Sustainability is but a means to achieve [outreach]. . . . Sustainability is in no way an end in itself; it is only valued for what it brings to the clients of microfinance. This is a point on which the 'poverty' camp frequently misstates the motives of the 'sustainability' camp. It would do wonders for the state of the debate if the poverty camp more readily acknowledged that the sustainability camp values sustainability only as a tool." While we do not doubt the sincerity of Rhyne's avowal, it is contradicted both in the writings of leading institutionist writers and in the internal logic of their arguments.

According to Navajas et al. (1998), the end of microfinance is "improved social welfare." This implies, then, that the ultimate measure of a "successful" MFI is whether it improves social welfare. The problem with improved social welfare, however, is that it is notoriously difficult and costly to measure. Consequently, some institutionist writers substitute outreach as a proxy for social welfare. This helps some. Breadth of outreach is easy to measure—simply count clients—but other dimensions of outreach, particularly depth of outreach, are more difficult to measure. The typical proxy for an MFI's depth of outreach is average loan size. But this measure is both crude and flawed (e.g., it does not account for the variability in loan size or for median loan size, both of which are superior measures). Rather than address these difficulties, institutionists take yet one more shortcut to estimate social welfare. Their proxy is financial self-sufficiency.

To measure the impact of microfinance on social welfare, one must calculate both social costs and benefits. Measuring the social costs of microlending is easy enough. This is equal to the selfish opportunity cost of capital. The difficulty comes in measuring the social benefits of

microfinance. Fortunately for institutionists, microeconomic theory offers what seems to be an easy way around what would otherwise be a daunting measurement problem.

Rational consumers will not purchase a good or service unless they expect a net economic gain as a result (or are at least no worse off than before). If rational consumers pay the full economic cost of microfinance services, then by definition the private economic benefit of microfinance services (the benefit to the client) exceeds the private economic cost (the selfish opportunity cost of capital). Furthermore, if the MFI earns a profit, this implies that the sum of private benefits exceeds the sum of private costs. Absent significant negative externalities, this means that total social benefits exceed total social costs. To sum up the institutionist position, "Profits are necessary for sustainability, and sustainability is sufficient for worthwhileness" (Schreiner, 1997a, p. 5).

Tracing through the logic of this argument yields the following:

- a. Financial self-sufficiency equals improved social welfare ( $a = b$ );
- b. Improved social welfare is the end of microfinance ( $b = c$ ); therefore
- c. Financial self-sufficiency is the end of microfinance ( $a = c$ ).

A similar conclusion can be reached by observing what criteria institutionist writers use to define "successful" MFIs. A few quotes should make this clear. "Two objectives are paramount for a rural financial institution to be successful: *financial self-sufficiency* and substantial outreach to the target rural population" (Yaron, 1994, p. 49). "The few [MFIs] that have been judged as successful have achieved that status because the [subsidy dependence index] showed them as either almost *financially self-sufficient* or just barely self sufficient" (Schreiner, 1997b, p. 4).<sup>12</sup> "The criteria for evaluating the success of such efforts [microfinance in Sub-Saharan Africa] should be on whether the institution achieves *financial sustainability* (Trape and Benhamou, p. 21). "We adopt the criteria suggested by Yaron to judge success . . . *self-sustainability*" (Chaves and Gonzalez-Vega, 1996, p. 66.). "The new standards of judgement for the performance of [MFIs] have been described in terms of *sustainability* and outreach" (Navajas et al., 1998, p. 5). Conspicuously absent from the stated criteria in each cited example is "improved social welfare." Instead, institutionist writers assume that financial self-sufficiency and improved social welfare are one and the same.

There are two additional problems with the institutionist position as stated above. The first problem stems from the argument that improved social welfare is the true end of microfinance. It is this: If an MFI produces improved social welfare (relative to alternative social investments), it is *logically irrelevant*, all else equal, whether the MFI is financially self-sufficient.

A possible rebuttal to this last argument is that while donor-dependent MFIs might improve social welfare, large-scale, financially sustainable MFIs, owing to their greater breadth and depth of outreach and their long-term permanence, can improve social welfare more. (Again, the *a priori* assumptions that only financially self-sufficient MFIs are sustainable and can achieve significant scale). Suffice it to say that this argument is based on a number of questionable assertions as well as questionable "findings" from a small handful of "successful" MFIs. It also ignores important counterexamples of proven sustainable, social welfare (or poverty) focused

MFIs that have achieved significant scale and depth of outreach, high portfolio quality, institutional efficiency, while using "subsidies" to catalyze and nurture their operations.

The second problem is that while arguing that financial self-sufficiency is sufficient for social worthwhileness may be true in a strict sense, it ignores the crucial question of who is or who is not being served. The general goal is improved social welfare, but for many MFIs it matters very much precisely whose welfare is being improved. For these MFIs, improved social welfare among the very poor is weighed more heavily than improved social welfare among the marginally poor or the non-poor (a point on which there exists general agreement). If it is the case that "subsidized" programs possess a comparative advantage in reaching the very poor, as we suggest here, then they may increase social welfare relative to other programs by improving depth of outreach, even if we assume they do so at some cost in breadth of outreach.

In conclusion, we would urge the industry to consider the implications of this overarching emphasis on financial self-sufficiency. What is most important? Is it to build social enterprises that can last long enough to bring about major improvement in the lives of very large numbers of people? Or is to become certified as totally subsidy-free. We do not pretend to speak for all practitioners, but for many MFIs, the goal is not to become totally subsidy-free. That is neither necessary nor sufficient to achieve their priority objectives.

The reality is that social investment is available. There is a market for social investment for traditional social services. It is called philanthropy or charity. NGOs have more or less thrived on this market for decades now. And now there is a developing social investment market for MFIs- for start-up capital, for technical assistance, and for loans at concessional rates. Should not MFIs tap that market for one-time or occasional infusions of social investment? Social entrepreneurs should lose their business licenses if they did not!

[Top](#)

---

## CONCLUDING REMARKS

Institutionist writers portray a dichotomous view of microfinance. In this view, MFIs are both financially self-sufficient and large, or "the alternative to viable organizations are expensive, inviable quasi-fiscal programs that reach only a select few beneficiaries" (Gonzalez-Vega, 1994, pp. 16-17). Many welfarists also fall into the dichotomy trap, in which they envision a single "correct" approach for microfinance. As such, the discussion has gone the way of too many other discussions in development-it has polarized, and it has produced a fruitless debate about who is more truly concerned for the welfare of the poor.

Rather than continue with this nonproductive dichotomous view of microfinance, it would be more helpful to characterize the diversity of microfinance practitioners as lying somewhere along a continuum from traditional business (a purely financial bottom line) at one end to traditional social service (a purely social bottom line) at the other end. In the middle is the emerging

phenomenon of the "social enterprise," which manages toward a double bottom line in a search to achieve a productive balance between selfish and social returns. The emergence of social enterprise can be seen in many sectors, but it may be best developed in the microfinance world.

Among the institutionist MFIs, some (e.g., BRI) operate as traditional businesses, while others (e.g., BancoSol), include "best practices" and financial self-sustainability among their core values. For these institutions, any social objectives they may have either are assumed by-products of their financial and institutional objectives, or they are relegated to subordinate or roughly equivalent status as their institutional objectives. Such institutions tend not measure success by social impact or by depth of outreach. There is nothing wrong with this approach, as long as practitioners in such institutions are up front about their objectives, and they do not try to attract social investors who explicitly want to pursue social objectives. Institutionist MFIs appear to address significant market failure to serve the borrowing needs of marginally poor and not-so-poor. In many cases, however, it is only incidentally that they serve the very poor. Moreover, serving the very poor frequently is not their "priority objective." For those MFIs to whom this applies, it would be helpful to donors and practitioners alike for them to say so.

Likewise, it would be helpful for traditional social service providers to admit that sustainable institution building is not their objective. They and their donors would do well to acknowledge that fact by making plans for leaving a legacy to be proud of when their microfinance projects phase out, sooner or later. They can provide loans at or below market rates to the poor needing special consideration (e.g., refugees and disaster victims) and still do a good job of loan recovery and managing their costs. Again, there is nothing wrong with this approach, as long as social service MFIs develop good strategies for eventually handing off their clients to more sustainable service institutions.

In fact, traditional social service providers can at times serve certain market niches better than sustainability-oriented MFIs. They can do a great deal of good during the "life of the project," provided they do not compete for clients who can better benefit from long-term microfinance services, put the meager assets of the poor at risk, or use their social mission as an excuse to operate inefficient and low impact programs.

Traditional business and traditional social service approaches are familiar polar opposites, the two ends of the microfinance spectrum. What is new and interesting in the microfinance movement is the broad middle ground occupied by the emergent social enterprises specializing in microfinance and related services. This is where the debate over "best practices" for combined impact and sustainability is most productively focused. The debate will improve as the different objectives are articulated and regarded as legitimate by all involved in the debate.

Social enterprises have to be explicit in both their social and financial-institutional objectives. Through appropriate staff incentives for managers and service staff, they need to commit to managing and measuring progress toward both. To date, social enterprises in microfinance have had serious difficulties defining, targeting, and reaching the core poor households, and they have done a very poor job of developing social impact measurement systems, much less actually measuring social impact. All are hard to do, but they have to be done, and MFIs better get started on it in earnest if they are to remain credible as social enterprises. Donors also need to clarify

their own objectives and make sure these match up with the objectives of the traditional businesses, social enterprises, and traditional social services in which they invest.

If we had to guess, it would be that the future of microfinance will be characterized by a relatively small number of traditional business (or institutionist) MFIs with significant breadth of outreach but limited depth of outreach and a relatively large number of social enterprise MFIs of widely varying sizes, institutional designs, and levels of financial self-sufficiency offering a wide variety of products and services targeted to the more poor. There is no need to make a once-and-for-all choice between competing approaches-a variety of approaches are needed, now and in the future. We would thus agree with Nitin Bhatt (1999, p. 15), who writes that "no one model of microfinance can solve the diverse developmental needs of the poor throughout the world. There is room for different kinds of programs, both subsidized and nonsubsidized, that cater to various segments of low-income communities. Given the need for a diversity of microfinance institutions, institutional plurality is key to prudent microfinance policy."

Finally, for everyone involved in microfinance today, we must know ourselves and be true to ourselves. We need to be more open and honest with each other about our real objectives and our commitment to reach them.

---

## REFERENCES

- Adams, Dale W. and J. D. Von Pischke. (1992). "Microenterprise Credit Programs: Déjà vu." *World Development*, vol 20, no. 10, pp. 1463-1470.
- Adams, Dale W., Douglas H. Graham, and J. D. Von Pischke (eds.). (1984). *Undermining Rural Development with Cheap Credit*. Boulder: Westview Press.
- Barge, Jim. (1985). "Goodhart's Law Strikes Again." *The Banker*, vol. 135, no. 8, pp. 27-31.
- Bayadas, Mayada M., Douglas H. Graham, and Liza Valenzuela. (1997). "Commercial Banks in Microfinance: New Actors in the Microfinance World." Occasional Paper No. 2372, Rural Finance Program, Ohio State University.
- Bennett, Lynn, Mike Goldberg, and Pamela Hunte. (1996). "Ownership and Sustainability: Lessons on Group-Based Financial Services from South Asia." *Journal of International Development*, vol. 8, no. 2, pp. 271-288.
- Bhatt, Nitin. (1999). "Delivering Microfinance in Developing Countries: Controversies and Policy Perspectives." *Policy Studies Journal* (forthcoming).
- Brinkerhoff, Derick W. (1991). *Improving Development Program Performance: Guidelines for Managers*. Boulder: Lynne Rienner Publishers.
- Chao-Beroff, Renee. (1997). "Developing Financial Services in Disadvantaged Regions: Self-managed Villages Savings and Loan Associations in the Dogon Region of Mali." In Hartmut Schneider (ed.), *Microfinance for the Poor?*, pp. 87-108. Paris: OECD.
- Chaves, Rodrigo A. and Claudio Gonzalez-Vega. (1996). "The Design of Successful Rural Financial Intermediaries: Evidence from Indonesia." *World Development*, vol. 24, no. 1, pp. 65-78.
- Christen, Robert Peck, Elisabeth Rhyne, Robert Vogel, and Cressida McKean. (1995). "Maximizing the Outreach of Microenterprise Finance: An Analysis of Successful Microfinance Programs." USAID Program and Operations Assessment Report No. 10. Washington, D.C.: U.S. Agency for International Development.
- Consultative Group to Assist the Poorest. (1995a). Focus Note No. 2. Washington, D.C.: The World Bank.
- Consultative Group to Assist the Poorest. (1995b). Focus Note No. 3. Washington, D.C.: The World Bank.

Dichter, Thomas W. (1996). "Questioning the Future of NGOs in Microfinance." *Journal of International Development*, vol. 8, no. 2, pp. 259-269.

Edgcomb, Elaine L. and James Cawley. (1994). "The Process of Institutional Development: Assisting Small Enterprise Institutions Become More Effective." In Maria Otero and Elisabeth Rhyne (eds.), *The New World of Microenterprise Finance: Building Healthy Institutions for the Poor*, pp. 76-93. West Hartford, CT: Kumarian Press.

Gaile, Gary L. and Jennifer Foster. (1996). "Review of Methodological Approaches to the Study of the Impact of Microenterprise Credit Programs." *Assessing the Impact of Microenterprise Services*. Washington, D.C.: Management Systems International.

Gonzalez-Vega, Claudio. (1993). "From Policies to Technologies, to Organizations: The Evolution of the Ohio State University Vision of Rural Financial Markets." Paper presented at the conference *Finance 2000, Financial Markets and Institutions in Developing Countries: Reassessing Perspectives*, May 28-27, Washington, D.C.

Gonzalez-Vega, Claudio. (1994). "Stages in Evolution of Thought on Rural Finance: A Vision from The Ohio State University." Occasional Paper No. 2134, Rural Finance Program, Ohio State University.

Gonzalez-Vega, Claudio. (1997). "The Challenge of Growth for Microfinance Organisations: The Case of Banco Solidario." In Hartmut Schneider (ed.), *Microfinance for the Poor?*, pp. 129-161. Paris: OECD.

Gonzalez-Vega, Claudio. (1998). "Microfinance: Broader Achievements and New Challenges." Occasional Paper No. 2518, Rural Finance Program, Ohio State University.

Hulme, David. (1997). "Impact Assessment Methodologies for Microfinance: A Review." *Assessing the Impact of Microenterprise Services*. Washington, D.C.: Management Systems International.

Hulme, David and Paul Mosley. (1996). *Finance Against Poverty*, vol. 1. London: Routledge.

Malhotra, Mohini. (1997). "Micro-finance: The New Emerging Market?" *CGAP Newsletter* No. 3, pp. 7-8. Washington, D.C.: The World Bank.

Morduch, Jonathan. (1998a.) "Does Microfinance Really Help the Poor?: New Evidence from Flagship Programs in Bangladesh." Unpublished manuscript. Cambridge: Department of Economics and HIID, Harvard University.

Morduch, Jonathan. (1998b). "The Grameen Bank: A Financial Reckoning." Unpublished manuscript.

Morduch, Jonathan. (1998c). "The Microfinance Promise." Unpublished manuscript.

Morduch, Jonathan. (1998d). "The Microfinance Schism." Development Discussion Paper No. 626. Cambridge: Department of Economics and HIID, Harvard University.

Navajas, Sergio, Mark Schreiner, Richard L. Meyer, Claudio Gonzalez-Vega, and Jorge Rodriguez-Meza. (1998). "Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia." Paper presented at the Latin American and Caribbean Economic Association Conference, October 22-24, Buenos Aires, Argentina.

Otero, Maria. (1994). "The Evolution of Nongovernmental Organizations Toward Financial Intermediation." In Maria Otero and Elisabeth Rhyne (eds.), *The New World of Microenterprise Finance: Building Healthy Institutions for the Poor*, pp. 94-104. West Hartford, CT: Kumarian Press.

Otero, Maria and Elisabeth Rhyne. (1994). *The New World of Microenterprise Finance: Building Health Institutions for the Poor*. West Hartford, CT: Kumarian Press.

Rhyne, Elisabeth. (1994). "A New View of Finance Program Evaluation." In Maria Otero and Elisabeth Rhyne (eds.), *The New World of Microenterprise Finance: Building Healthy Institutions for the Poor*, pp. 105-116. West Hartford, CT: Kumarian Press.

Rhyne, Elisabeth. (1998). "The Yin and Yan of Microfinance: Reaching the Poor and Sustainability." *MicroBanking Bulletin*, vol. 2, no. 1, pp. 6-8.

Rodey, Barbara J. (1997). *The Spiritual Dimensions of Microfinance: Towards a Just Civilization and Sustainable Economy*. Paris: European Baha'I Business Forum.

Rogaly, Ben. (1996). "Micro-finance Evangelism, 'destitute women,' and the Hard Selling of a New Anti-poverty Formula." *Development in Practice*, vol. 6, no. 2, pp. 100-112.

Schreiner, Mark. (1997a). "Ways Donors Can Help the Evolution of Sustainable Microfinance Organizations." Occasional Paper No. 2362, Rural Finance Program, Ohio State University.

Schreiner, Mark. (1997b). "How to Measure the Subsidy Received by a Development Finance Institution." Occasional Paper No. 2361, Rural Finance Program, Ohio State University.

Sebstad, Jennefer and Gregory Chen. (1996). "Overview of Studies on the Impact of Microenterprise Credit." *Assessing the Impact of Microenterprise Services*. Washington, D.C.: Management Systems International.

Seibel, Hans Dieter and Uben Parhusip. (1998). "Microfinance in Indonesia: An Assessment of Microfinance Institutions Banking with the Poor." Occasional Paper No. 2365, Rural Finance Program, Ohio State University.

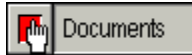
Trape, Philippe and Jean-Francois Benhamou. (1996). "French Assistance for the Development of Micro-finance Institutions." *CGAP Newsletter* No. 2, pp. 20-22. Washington, D.C.: The World Bank.

Von Pischke, J. D. and Dale W. Adams. (1980). "Fungibility and the Design and Evaluation of Agricultural Credit Projects." American Journal of Agricultural Economics, vol. 62, no. 4, pp. 719-726.

Webster, Leila. (1995). "The Informal Sector and Micro-finance Institutions in West Africa [Implications for the World Bank]." CGAP Newsletter No. 1, pp. 9-10. Washington, D.C.: The World Bank.

Yaron, Jacob. (1994). "What Makes Rural Finance Institutions Successful?" The World Bank Research Observer, vol. 9, no. 1, pp. 49-70.

Yaron, Jacob. (1997). "How to Assess Performance of Development Finance Institutions." In Hartmut Schneider (ed.), Microfinance for the Poor?, pp. 63-71. Paris: OECD.



[Return to the Documents Section](#)

Hari Srinivas - [hsrinivas@gdrc.org](mailto:hsrinivas@gdrc.org)



[Return to the Virtual Library on Microcredit](#)

# Chapter 12

## Village Development and Microcredit in Africa

Warner Woodworth

The socioeconomic crisis of Africa continues to defy western aid efforts, leaving many regions devastated by the destruction of civil wars, the scourge of HIV-AIDS, decades of drought, and the vestiges of colonization by Europeans. Numerous large, top-down economic and political reforms have been attempted in recent decades, but many end with questionable outcomes. Modernization projects often fail. Foreign investment is siphoned off by corrupt officials. Macro level changes frequently do not adequately lead to fulfilling basic human needs.

However, new social development programs are being organized in participative fashion with funds donated by outsiders and the work implemented by indigenous people. Instead of top-down, these efforts are bottom-up. Instead of being bureaucratic and large scale, such programs are small and flexible. They are run, not through the national government or big business, but through new grassroots associations. Such vehicles for social change are thus, third sector institutions, often referred to as private, voluntary organizations (PVOs) and/or non-governmental organizations (NGOs).

This paper will report on and analyze the capacity-building work of the NGO movement in West Africa, particularly in Mali. Several NGOs engaged in social development have been researched through both quantitative and qualitative methods among rural indigenous people.

A regional case herein is the Ouelessebougou Alliance, an NGO operating in an area known as an *arrondissement*, or county in southern Mali of over 50,000 people today has spread throughout 86 villages. In a decade and a half, it has achieved a remarkably positive impact in various aspects of rural society—children’s schools, adult literacy, community healthcare, water wells, gardens, microcredit banking, and women’s cooperatives. This West Africa program operates according to the new “social inventions” articulated by William Foote Whyte in his plenary address as President of the American Sociological Association (1982).

### **The Context: Mali, West Africa**

In the 1980s Mali was a region of some 35,000 indigenous people spread through 72 rural villages. They struggle to survive on a subsistence economy where the GNP is only around \$300 per year. In past years Mali functioned as a French colony known as “Western Sudan.” Reports estimate that the population today is around ten million people most of whom dwell in the southern region of the nation. Mali is roughly twice the land mass of Texas making it one of the largest nations on the African continent but it is landlocked from the Atlantic Ocean. In the north of Mali is the Sahara where nomadic tribes still herd cattle and roam the desert. Ancient Timbuktu was in its heyday the economic nerve center of West Africa. Today, the business base

of Mali is the capital, Bamako, a congested urban center of some 1.5 million people located around the flow of the Niger River. Further south, where Ouelessebougu is located the land is semi-arid. Due to an 18-year drought, the area is losing much of its bush, trees are sparse, and much African game has moved deeper into Central Africa.

In the 1800s Mali was taken over by the French with the intent to gain control of the flow of gold trafficking around the Niger River region (Imperato, 1989). Ultimately, the occupation of the larger area became known as French West Africa and the European strategy to extract natural resources to benefit their own societies was systematically accelerated. A key to the French methods was that of educating native elites so they themselves would control the indigenous Malian masses, in effect creating what the French called a “mission civilisatrice” (civilizing mission) to the country (Bakary, 1995). But, of course, as with most colonial attempts to civilize or exploit indigenous people, the consequences were extremely negative.

As a French Colony, much of the region’s riches were extracted by force over long years so that when Mali was given independence in 1960 it was essentially bankrupt. Of course, French remained the dominant, official language, but there are numerous indigenous languages and dialects as well, Bambara being one of the most prevalent. Of the twenty most common ethnic groups Bambara tribes and class dominate. The people try to chip away at a meager lifestyle through three annual seasons—cool and dry from November through February, hot from March through May, and the rainy season between May and October.

With respect to culture, the urban areas are becoming somewhat westernized in terms of electricity, increased awareness of an outside world including Hollywood films and the superstar status of Michael Jordan’s Chicago Bulls. There are televisions, cars, and indoor plumbing for much of the population in Bamako, along with charcoal cooking, dirt-paved roads and masses of poverty-stricken people. The extensive kinship ties of the past, however, are declining with respect to land ownership, labor and other resources (Callaghy and Ravenhill, 1993).

In contrast, the rural villages of the other three quarters consist of mud huts, thatch roofs, outdoor cooking and latrines. The nation is almost wholly Muslim, while a mere one percent can be classified as Christian. Daily rituals of prayer, the month-long fast of Ramadan, and plural marriages of up to four wives are still quite common. Although the French left the typical colonial legacy of moral and financial bankruptcy in Mali, some of its own native leaders seemed to exacerbate the nation’s difficulties even after independence. For example, the head of state at the beginning of the 1990s, Moussa Traore, is widely known to have looted the country by amassing a personal fortune of over \$2 billion, the equivalent of Mali’s total foreign debt (Ziegler, 1992). During the same era as the drought-ravaged, desperate conditions of poverty ate away at the country’s quality of life, the government was wasting some 20 percent of its budget on weapons and soldiers (Whitaker, 1988, p. 43). And when a crowd in the capital marched for greater democracy five women were shot to death by Malian soldiers. Dozens of others who rushed into a nearby building to hide were killed by soldiers who set the structure on fire (Washington Post, 1991; Ayittey, 1992).

Mali has moved over the past 35 years since French independence from a Marxist state and/or military dictatorship to a multi-party democracy (Ajayi and Espie, 1972). In 1992 there was but

a single state-sponsored newspaper but today there are twenty (New York Times, 1996). Whereas in 1996 there was a mere one radio station operating out of Bamako, now approximately forty broadcast throughout the region. While much of Africa is still controlled by one-party leftist states or army juntas, Mali President Alpha Oumar Konare has overturned the top-down, rigid public ownership of the past and began to privatize government-owned corporations, launched free trade and invited in foreign capital (Washington Post, 1996).

According to the Human Development Index (HDI) of the past decade, Mali ranks only 167<sup>th</sup> of 173 nations analyzed in terms of various criteria—literacy, GNP, education, health, life expectancy, access to safe drinking water, political democracy and so on (UNDP, 1999). Malnutrition is widespread although actual starvation is rare. Millet, the primary food staple is plentiful, but not adequately nutritious for a good diet. In the United States it is fed to wild birds in one's outside yard.

Because of colonization, drought and desertification there are minimal natural resources. Four fifths of the working population are engaged in subsistence agriculture. The formal economy consists of a large number of public sector jobs with the typical government functions. Private sector firms are few and purchasing power of consumers is weak. In cities such as Bamako it is estimated that about half of the workforce is unemployed.

Maternal mortality in Mali is the worst in the world—some two thousand women of a hundred thousand die during pregnancy and childbirth. Life for the young is fraught with diseases resulting in the death of 40 percent of children before reaching the age of five years. Malaria ravages the country along with lesser bouts of cholera and yellow fever. For adults, life expectancy only ranges between ages 44-47. Financially destitute hospitals and inadequate medical clinics, operated by poorly trained professionals makes overall public health a critical problem. Estimates are that there is only one doctor for every 17,000 people in Mali.

Perhaps equally problematic is the poor state of education. Official but questionable data suggest that illiteracy among women is 53 percent in urban centers and around 90 percent in the rural regions. Within the above context of Mali as a whole we now turn to the creation of an NGO, the Ouelessebouyou-Utah Alliance in 1985.

### **Origins and Programs of the Alliance**

At the inception of the Ouelessebouyou-Utah Alliance (OUA), residents of Salt Lake City, Utah wrestled with how they might be able to aid Africa, as they saw continual press coverage of crises in Ethiopia and Somalia. Eventually, because of small human and financial resources, and in consultation with African development groups, they decided to focus on Mali where life was hard, but where a tiny group might be able to make a positive difference. They struggled for months as to whether they ought to simply raise funds for short-term relief in northern Mali, or whether to engage in a long-term international development effort in the south. After weeks of discussion and debate, the development solution won out and OUA was officially established as a project to reduce the effects of drought by digging village wells. For some time the group

partnered with Africare, an NGO with a solid track record of success and knowledge, about Africa especially. The wells were very costly and, after three years, OUA broke off its partnership and determined to go it alone (OUA, 2000).

Access to water meant a considerable drop in the daily drudgery of walking long distances to obtain water in the rural areas of Oulessebouyou. Not only did the wells facilitate availability of precious water, but they enabled the Utahns to next teach the people how to create gardens—tilling the land, planting and fertilizing-watering, and building fences to hold out hungry animals. This important step greatly enriched the Malian diet, moving beyond mostly millet to lettuce, cucumber, tomatoes, onions, green beans, papaya and other produce.

By the late 1980s OUA extended its vision to concerns of health care and medical services. Owing to the fact that there was only one small and inadequate rural medical clinic for the entire region of 35,000 indigenous people, the Salt Lake group decided to establish a pharmacy and provide low cost medicines. With the superb guidance of Utah physicians and nurses, the pharmacy was established. Various drugs were donated. And eventually rural villages began to be trained in how to diagnose and dispense certain simple medicines—aspirin, penicillin, and so forth. In subsequent years this health care drive grew to involve either a man or woman from the majority of the 72 villages, each with a small metal closet of basic pharmaceutical items. Prevention as well as medicine is emphasized.

During that period the Salt Lakers realized that more could be accomplished if an applied sociology approach could be started. If instead of occasional trips to Mali from Salt Lake City a native staff could be trained to do hands-on work for OUA, there might be more success. Fortunately, they met a charismatic, educated Malian named Modibo Diarra and in 1988 he became the on-site field director for various projects being established. Diarra had grown up in a nomadic family wandering across the Sahel region of the southern Sahara desert. Naturally intelligent, he was selected for an educational scholarship in Bamako where he learned academic skills and began a career as a school teacher.

For years he taught school in the capital eventually becoming a leader in the national teachers' union. As a Muslim he often questioned the religious beliefs of his traditional culture, and when independence from the French occurred and a Marxist state was created, constant indoctrination also led to many questions and unresolved issues. Life's philosophical research ultimately culminated in Diarra's conversion to Christianity by an expatriate Mormon family residing in Bamako for a time. So when the Alliance heard about him, the role of field director appeared to be an excellent choice.

Under Diarra's clear vision and superb leadership skills, OUA's success heightened rapidly. The organization had surveyed the problem of lack of education and decided to begin constructing schools in villages where illiteracy exceeded 85 percent. Rather than attempt to teach French, the focus would be to build on the people's traditional language and culture, Bambara. Instead of attempting to teach all children, a targeted approach was devised in which village elders and poor parents would explore their needs and capabilities. Upon deciding to build a school, the

Utahns would raise funds with which to purchase corrugated tin roofs, windows and doors. OUA staff and U.S. citizens would prepare mud bricks for the walls. Diarra negotiated with Mali's ministry of education to supply government-trained teacher whose salary would be two-thirds funded by OUA the first year, two-thirds funded by village parents in the second, and 100 percent of their salary paid by the village in year three (OUA, 2000).

Crudely-surfaced blackboards, rough-hewn desks and handmade texts are the meager furnishings for each school. Most hold 30 - 50 children between ages 9 - 15 who for the first time in their lives now have the opportunity to gain an education. While but a few enjoy this privilege, it is a poignant experience to see dozens of children under age 9 from the village, sitting outside the schoolroom in the hot sun, listening intently to the teacher's words, the class verbal response and rote learning. These are the next generation who hunger for education and try up until age 9 to prepare as best they can in order to maximize their learning when the time eventually arrives.

By 1992 many parents of these newly-schooled children began to long for their own education. This gave rise to an adult literacy project that OUA began in partnership with the successful Laubach Literacy program (Curtis, 1994). Funds were raised for this effort, native volunteers were trained to teach and the first workshops began. This has become one of OUA's most successful development tools, growing from a few hundred newly literate people by 1993 to thousands presently.

### **Oua Strategies For Economic Development**

My personal involvement with OUA began several years ago with an invitation to join the board of directors and later, its executive committee. More recently, I've served as Board Chair and supervised various graduate students as interns in Mali, applying social science methods to enhance village development. Having taught development courses at BYU, supervised masters' theses on Third World topics, and initiated a number of economic development projects around the world, my interests at OUA soon began to focus on how the alliance could achieve more independence and long-term sustainability. Without rising income levels, these villages could not afford the continued growth of wells, gardens, schools and health care. While the objectives and generous financial support had led to impressive results, there was the risk of eventual failure unless people could become more self-reliant.

So after an initial needs analysis, a group of students at BYU began to work with me to devise a game plan for the future. In 1995 I led a team to a group visit of Ouelessebougou, meeting with several women's cooperatives and other relevant parties—Malian bankers, other NGO representatives, Peace Corps representatives, as well as the OUA staff, some village chiefs and a few microentrepreneurs. What became clear is that most of the poor who attempt to become self-reliant struggle with self-image problems, lack of capital, harsh economic conditions and so forth. With respect to Ouelessebougou itself, would-be micro entrepreneurs have additional problems including great distances and lack of transportation, illiteracy and extreme poverty, meaning few have any money with which to purchase goods and/or create jobs. But we also could see that a person with energy and insight plus a bit of capital could possibly become

successful as a small business person, or what in French is referred to as *petit commerçant*.

Based on observation, interviews, and several research reports, we saw that for many people life in Mali is one of utter destitution. Centuries of colonization have resulted in exploitation, dependency and a sense of futility. There is little foreign investment and the currency devaluation and drought of past years are still taking a heavy toll on the country. While attempts have been made to move from a colonial past under the French, and then from state-run socialism after independence in 1960, the current political economy is not a very positive picture. People seem motivated and desirous of improving their lives, but many lack the wherewithal to make great changes. Essentially, there is a great degree of unemployment and underemployment, combined with high population growth. Today, instead of 72 villagers there are 86, and the population has grown from 35,000 to over 50,000.

The general impression regarding the potential for strengthening the informal economy was that there are formidable challenges. Low levels of education and literacy, for example, make it hard for someone to fill out a loan application or to balance one's micro enterprise accounts. The Peace Corps staff suggested that there are insufficient links between savers and borrowers in Mali, leading to low investment of productive capital. Rural bank practices supposedly exist to encourage national development, but in fact, they do not provide small loans to poor villagers. To make matters worse, the government of Mali does not have much to spend on poverty programs in the rural economy. There is considerably little formal support for business training, technical assistance or consulting, and government-directed credit programs.

In the mid 1980s, USAID gave financial support for a program to strengthen the Malian small business sector through the Bamako Chamber of Commerce, the idea being that after the U.S. start-up, the Mali Chamber of Commerce would then provide ongoing funding. But with no real Chamber support over the next five years, the program was discontinued. In recent years, the Peace Corps arrived and it has attempted to assist small businesses, working in collaboration with government agencies and non-governmental organizations (NGOs). However, it seems that while Corps staff are motivated to do good and have French language capabilities, most volunteers lack solid business skills and understanding. Nevertheless, volunteers have been assigned to a Small Enterprise Development (SED) program in various regions of Mali to nurture the native micro enterprise sector, coordinating with NGOs and governmental agencies that attempt to strengthen the informal economy. A six year plan has been established with two main thrusts: 1) assist the government agency *Centre d' Action Cooperatif* (CAC) in moving from its traditional government-run co-op efforts, in favor of a more relevant, village-based savings and credit system; 2) assist local NGOs as they strive to create a healthier small enterprise sector in rural Mali—increasing the pool of potential entrepreneurs, supporting education programs to enhance literacy, math and other business skills, conducting feasibility and marketing studies, and so on.

According to various interviews during the trip, the idea of micro enterprise and credit makes sense and appeals to most people. However, doing so successfully is another matter. Apparently the World Bank launched a village credit venture in Mali several years ago but only 1 percent of

recipients repaid their loans.

Based on the 1995 needs assessment trip, a three-pronged strategy for economic development has been launched that consists of the following:

- 1) Train interns in the U.S. and prepare materials to be used in Mali as reported earlier;
- 2) Create and/or expand worker-owned cooperatives;
- 3) Establish a micro lending program with a village bank and small paid staff.

The paragraphs below reveal the extent of these efforts thus far.

### **Economic Activity of Women's Cooperatives**

Beginning in the mid 1990s several women's groups tried to attempt some kind of economic activity including Group Lolo, Danaya, Seneketon, Wahabiyakin, and Kankelintigui. Most of them started as social units, cooking and eating, shopping, partying, dressing up, telling jokes, and otherwise passing the time of day. Gradually, however, they shifted to more serious concerns such as work, improving society, generating a profit, improving members' lives individually and collectively (Cooperatives, 1995).

Some groups are doing better than others. At one end of the spectrum, Group Lolo is the model of success, the "dugantigi" (queens) of women's co-ops. They still banter with joke partners and dress up for festive occasions. But they are also quite serious as they have become a role model for other groups that look to Lolo for leadership. They buy oils and chemicals in bulk, mix them and pour into large vats. When the fluid hardens, it is cut into squares and sold in the market as bars of soap. Currently, Lolo members are seeking various alternatives to expand and generate more capital. They currently plan to launch a cement business, importing cement from Abidjan, Ivory Coast, to sell as the pace of new construction in town accelerates. To do so will require some 4 million CFA, roughly \$8,000 U.S.

After its start, Group Lolo grew to some 50 members, but it became too big and unwieldy. Also, many new participants viewed the co-op merely as a way to get money and meals without any work or sacrifice on their part. Now the total is back down to around 25 members. They trust each other, pay weekly membership fees, vote in officers, and collectively plan projects for the co-op. Lolo members also spend time and effort advising other start-up groups, offering leadership and suggestions for success.

In the middle success range of women's groups are those such as the Seneketon Benkadi co-op whose members are from the Sahel region of

Northern Mali, a well-known group in Ouelessebougou who have a strong reputation as workers/harvesters. With a hundred members, the co-op labors one day each week during the rainy season to raise group monies, and people spend the other days doing their own work for their personal incomes on family fields. They need supplies such as seed and fertilizer, as well as tools like plows and oxen. As with Lolo, these women say their biggest problem is lack of capital since the government cannot help them and the banks will not. When asked, they said that although they have a secretary and a treasurer in the group, no records are kept because none of these women can read or write, add or subtract. So who manages their money? A man they trust to do so. One worries about dependency, corruption and exploitation that may occur as the man sees opportunities to exploit a hardworking group of vulnerable women.

Further along, at the hardship end of the spectrum is the village women's co-op, Wahabiyakin, a very strict Muslim sect whose husbands originally would not even allow them to meet and talk, to say nothing of creating a producer co-op. Eventually, the men acquiesced but the women's struggle took its toll. For example, the co-op labored for two years to prepare a parcel of poor, barren land for farming, based on an agreement with the owner that they could use the land for a time. As peasant laborers, the women were confident the project would yield a good crop to sell in the market. Then, the owner reversed the agreement and reclaimed the land, forcing the co-op members off his property. But they had no recourse.

Between the success of Group Lolo and the painful failure of Wahabiyakin, the other co-ops have experienced mixed results. However, all are attempting to change their world, trading the deprivation of the past for a more promising future. While failures are hard, even bad experiences offer lessons to be learned. One is struck by the push toward empowerment and the desire to make a difference. The women's efforts suggest that their children will be better off as they are raised—with new motivation, schools and health care previously not available.

By the end of 1999 when a Salt Lake team returned to Mali, it was gratifying to discover that from the handful of women's co-ops 3 years earlier, today there are about thirty. More and more individuals and villages are discussing the viability of launching further such groups in the coming year.

The very act of attempting cooperative experiments is showing people they do not have to sit around as passive individuals, waiting for the world to improve. For example, the colorful Danaya group started with only a few women four years ago and has now grown to 51 members. One enterprising lady grew a garden of onions. She also dyed cloth and took all her goods to the Ivory Coast

to sell. With her new revenues, she purchased nuts and other items in Abidjan, brought them back for sale in Ouelessebouyou, and on up to Bamako. She is now seen as a model of success for others to follow. The dependency ethic is giving way to the work ethic, the spirit of enterprise.

Equally interesting, when visitors inquired about membership in Danaya, they were told that each person must apply and pay 2,500 CFA. The money goes into a collective fund which is then rotated among the members for use in their individual economic projects. The question was then raised about what happens if a woman's efforts fail and she loses capital rather than gain an increase? Or has a sick child and uses the money for medicine? Is the individual expelled from the co-op? Apparently not. Instead, the others pitch in to raise the necessary amount and bail out the person in trouble. Their goal is the good of the group as a whole, not the wealth of just one person. This sense of community and shared responsibility may serve as a powerful force for long-term sustainability.

Even the men's world of Mali is changing. Because of the growing entrepreneurship of females, some males in Ouelessebouyou have begun a livestock co-op. With OUA assistance, the men are raising animals and have begun an insemination co-op too. And after visiting the women's large garden at Dalabala village, visitors were shown the new men's garden they had tilled, fenced and planted. The implication was increasingly clear that as Malian women begin to raise the quality of their lives, the spillover effect to other aspects of the culture will also occur.

### **Creating the Ouelessebouyou Village Bank**

During Winter Semester 1996 the BYU team intensely studied research materials on Mali and the experiences of micro credit organizations around the world. How to design such a system in Mali was the major theme of such efforts. Off-campus volunteers assisted in planning a series of training topics for microentrepreneurship, business management and financial skills. Approval of the plan was secured by the U.S. board and the field study in Mali. Training modules were translated into French and ready to go. Then, U.S. interns began a sequence of on-site work in Mali as listed below:

- A Harvard graduate student in public policy spent summer 1996 in Ouelessebouyou, designing the bank, meeting with other NGOs, inspecting other village bank structures in Mali.
- A BYU doctoral student and his wife spent fall semester 1996 building on the earlier work. Together with two other BYU alumni who visited Mali for shorter time periods, materials were prepared and management training was given to native microentrepreneurs.

During December 1996 I returned to jointly review and evaluate the preceding work. A large meeting of people was held to organize and become members of the OUA village bank. Some 40-50 natives were expected, but over 160 attended and joined as credit members, paying a \$2 membership fee and opening a savings account. After opening ceremonies and speeches, the election of a bank board, a watchdog committee and a management education committee, a check was presented to the new president of the bank in the amount of \$2,000 (a million CFA) and a huge banquet was begun to celebrate the event. Articles of incorporation had been drawn up by the Utah team, refined with the OUA staff in Mali, along with statutory documents and other regulations. Its official name was declared as follows: *La Caisse Villageoise Jama Ka Wari Yiriwali Jikene*. It is a mix of French and Bambara that can be translated as follows: "The Village Bank that Supports People for the Collective Generation of Money."

The French term for bank is *caisse*. Based on OUA *caisse* reports, various analyses were obtained. The material below summarizes the first year results of the OUA village bank. It should be noted that initial training modules, although simple in scope when designed at BYU, were still too complicated for Malian villagers to understand, so further revision and simplification has occurred since the first year:

Membership in the *Caisse* - 160

95 Females

65 Males

Each member must put 1,000 CFA in a savings account each month to build up a pool of capital

More recently:

151 people got loans

142 paid back loans on time in the first wave

30 people received a second loan after paying off the first so far

9 loan requests were denied

The loans started out between \$100-200 on average. They had to be repaid with a six month period at 15 percent interest. The range of uses for the micro loans includes such employment as street vendors selling cosmetics, cereal, fruit, milk, cement, clothing, medicines, honey, or paint. Other jobs include construction, butcher, restaurant owner, veterinarian, and gardener. The average first loan was for the equivalent of approximately a hundred dollars. After that amount was paid off, they could then apply for a second, larger loan.

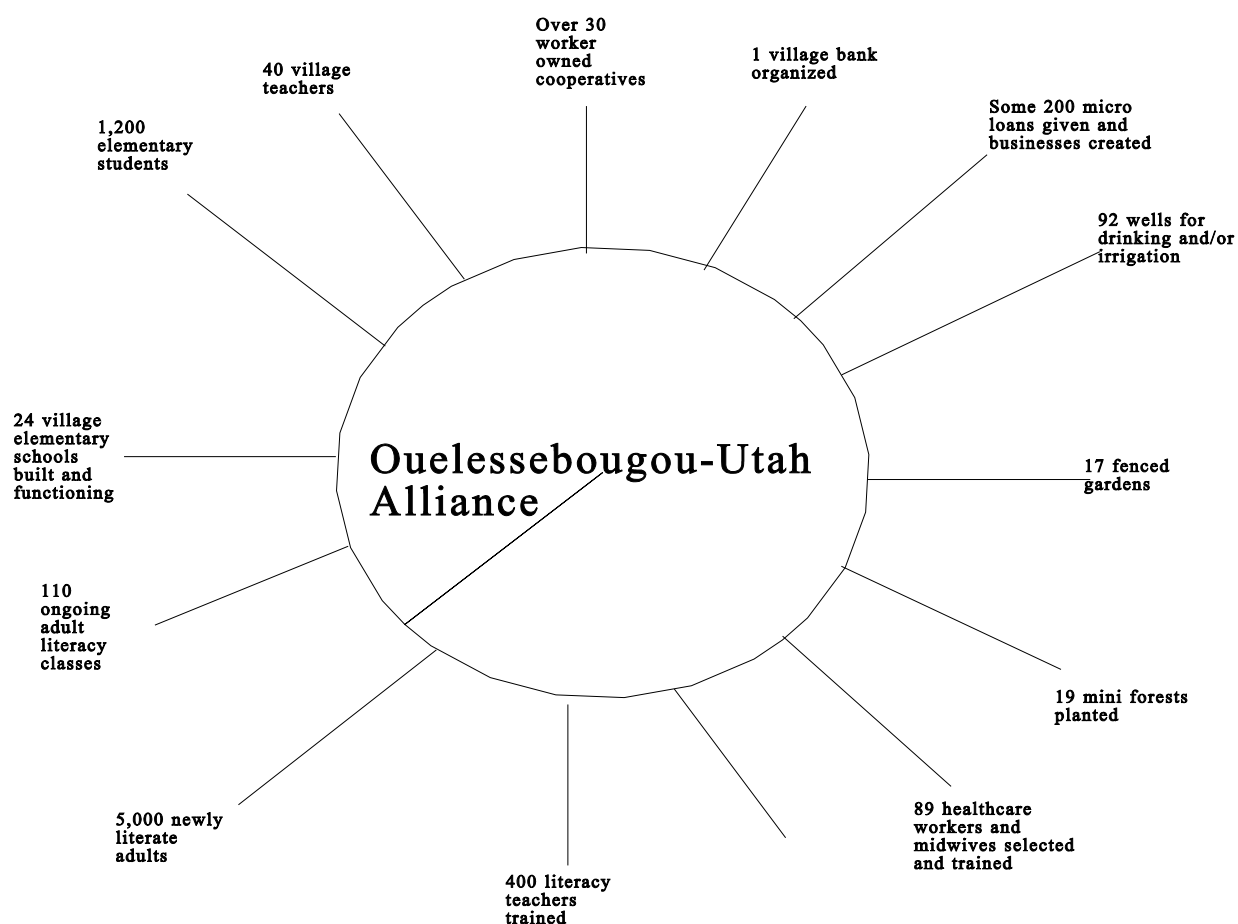
Perhaps one brief example of a recipient of a microloan in Ouelessebouyou will

illustrate the economic impact. During my 1999 trip, I visited a fruit stand along the highway in the large village of Ouelessebougou. The microentrepreneur's name was Mantjini. Nicknamed Maini, I'd met her two years earlier. Since the death of her husband, she has struggled to feed her family and generate an adequate income. When the OUA village bank was opened she applied for and obtained a very small loan with which to produce fruit and vegetables. But it was very difficult and the children were often hungry. So after paying off the first loan she applied again. This time the *caisse* loaned her about \$100 U.S. through her village group. Known as a *babo* or "mother's room," the group is collectively responsible for the full loan and they can divide it among each person, or pool it all to give to one. Her group allocated the entire \$100 to Maini, a sufficient amount with which she could set up and open a restaurant. The microenterprise has done very well, enabling her to expand from a mere street vendor of fruits and vegetables to now offer a full meal, thereby making more adequate income. The business now not only helps her, but allows her to also provide jobs for her two daughters, one son and a nephew. The plan is to pay off the second loan soon and then obtain an even greater amount.

### **Conclusion**

By adding more co-ops, microentrepreneurship and small business training, and a village bank to provide microcredit, Ouelessebougou as a whole is gradually improving and becoming more self-reliant. In December 1996 there was no village bank and the people of Ouelessebougou had never had a bank account. Today many individuals have personal savings accounts that earn them 5 percent interest per year. Poor indigenous people who tried to start or to grow a microenterprise, either failed because of lack of capital, or were exploited by greedy loan sharks in the region. Now those same villagers have enjoyed a successful savings and microcredit program, as well as various women's producer co-ops. They own their own bank and its assets. And interestingly, today there are three other NGOs who have moved into the region and established *caisses* (communal banks) of their own, thus providing villagers with various economic alternatives. And all this began with a mere \$2,000 grant from caring Utahns in 1996.

The total impact of development efforts since OUA began some 15 years ago can be depicted as follows:



Collectively these development strategies have had a high impact. Wells, gardens and much of the health care efforts resulted in immediate or quick benefits. Other programs such as schools, literacy and economic strategies will lift the villages of southern Mali gradually over the long-term. Together they offer important consequences for today and much more in the future as villages in this extremely poor region move toward self-sufficiency.

In a recent interview with an NGO association official in Bamako, it was reported that there are approximately 900 NGOs throughout the country of Mali. Of those, OUA was ranked 86<sup>th</sup> in terms of its annual budget. Yet with respect to productivity and impact, OUA shoots up toward the top, at a rank of number 12.

The OUA impact is increasingly recognized in Mali in other more qualitative ways. For instance, the national government's reaction to the drinking and garden wells was so positive, the field staff was asked to help another region dig eight new wells. At best, they predicted that it would take two months, but, in fact, under Moussa's expertise, they completed all eight in only 28 days.

Because of OUA's credibility, a large European pharmaceutical nonprofit organization has begun to partner with the Alliance's effort, especially the village health care workers and OUA pharmacy. They were so impressed they invited Diarra to serve as volunteer chairman of their board for the whole country of Mali. That has resulted in a greater supply of low cost drugs for poor villagers. Also, teams of Swiss youth have paid their own way to Ouelessebouyou and helped build three more village schools. The value of all that donated labor is roughly 2.5 million CFA (\$5,000 U.S.).

More recently the Peace Corps in the capital has assigned a U.S. volunteer to work full time with OUA, partly to strengthen our efforts in southern Mali, but also because they want to be linked up with such a productive, successful development program. In fact, the U.S. ambassador to Mali was so struck by OUA's progress, he allocated \$15,000 from a special fund to enhance several programs.

Several other *arrondissements* (counties) adjacent to Ouelessebouyou have often requested OUA's technical assistance—to build schools, train health care workers, and so on. If time and funding were available, there is no question the Utah NGO could be replicated nationally. The Minister of Energy wants to give us solar panels to light each village school that the Alliance has built. The government also wants to take over four schools and transfer their ownership to the federal system because they are so effective, thereby providing its own teachers instead of those paid by poor villagers.

At the December 1998 annual meeting of all OUA village bank members, even the president of the Republic of Mali, Mr. Alpha Konare, made a surprise entrance. He, too, had joined the *caisse* during the previous year, depositing several hundred dollars in his own new savings account. During the meeting, President Konare sat quietly, listening to the bank's secretary and treasurer report on the total amounts of money in individual savings accounts, how many loans were given, payback rates, and default. At the end, we presented Mr. Konare with a book and T-shirt of the Alliance. His short speech was a powerful affirmation of OUA's work: "Village banking and microentrepreneurship training is the most innovative development program in Mali," he declared. "In fact, The Alliance is pioneering the leading-edge path to a better West Africa in the future. . . for all Malian villagers to follow." That declaration then led to an explosion of cheers, drum-beating, singing and dancing as the president, security guards, and national press representatives climbed into their vehicles and sped off through the jungle.

All in all, microcredit and cooperative creation are but the latest phases of development by the OUA in Mali. The creation of NGOs with innovative social

structures and radical economic methods like microcredit through indigenous communal banks, are congruent with the notion of “social inventions” ASA President William Foote Whyte advocated two decades ago. Women’s co-ops and support for microenterprise offer a new, stronger economic foundation for strengthening village programs such as wells, gardens, healthcare and education. Now, by lifting poor villagers financially through microcredit and co-ops, long term sustainability of OUA efforts appears much more secure as the poor of Southern Mali enter the 21<sup>st</sup> Century and a new millenium.

## References

- Ajayi, J.F. Ade and Ian Espie (eds.). A Thousand Years of West African History. (New York: Humanities Press) 1972.
- Ayittey, George B. N. Africa Betrayed. (New York: St. Martin's Press) 1992.
- Bakary, T. D. "Educational Systems, Social Stratification and the Construction of the State. In A. Kirk-Greene and D. Bach (eds.) State and Society in Francophone, Africa Since Independence (Oxford: St. Martin's Press) 1995, pp. 62-77.
- Callaghy, Thomas M. and John Ravenhill (eds.) (New York: Columbia University Press) 1993.
- Cooperatives. Much of the material on women's cooperative associations is excerpted from my report after a trip to Mali in 1995, as well as updated in December 1997.
- Curtis, Lynn R. Oulessebougou-Utah Alliance Literacy Project: Summary, Observations and Evaluations. (Salt Lake City: Laubach Literacy International) 1994.
- Imperato, P. J. Mali: A Search for Direction. (San Francisco: Westview) 1989.
- New York Times, April 29, 1996.
- OUA. Much of the history for this chapter is derived from the author's experience on the OUA board from 1994-2000.
- Smart, William B. "A City to Village Project Will Help a Country in Despair," Deseret News, Utah Magazine, March 30, 1986.
- Thompson, Jan. "Growing Up in Mali," Deseret News, April 30, 1989.
- UNDP. Human Development Report 1999. (New York: United Nations Development Programme—Oxford University Press) 1999.
- Washington Post, March 24, 1991.
- Washington Post, June 9, 1996.
- Whitaker, Jennifer S. How Can Africa Survive? (New York: Harper & Row) 1988.
- Whyte, William F. "Social Inventions for Solving Human Problems." American

Sociological Review, 47, 1982, pp. 1-13.

Woodworth, Warner. "Micro Enterprise Report." (Unpublished Technical Analysis). Salt Lake City, UT: Ouelessebougou-Utah Alliance, December 1995 (18 pp.).

Woodworth, Warner. Small Really is Beautiful. (Ann Arbor, MI: Third World Thinktank) 1997.

Ziegler, Jean. "The Blood of the Poor," Liberation, cited in West Africa, May 4-10, 1992, p. 746.

# 13

## **The World Bank's Past, Present, and Future Role in Microlending**

J. Michelle Forrest

At the end of World War II, there was a great need for order in a world capitalist system overcome with the economic rivalry that had developed between nations. A degree of unity among 44 participating countries at the Bretton Woods Conference was generated by this concern. In addition to a system of fixed exchange rates, the conference resulted in the creation of two long-term international bodies, the International Bank for Reconstruction and Development (IBRD) or World Bank and the International Monetary Fund (IMF). These entities were created to fulfill two crucial functions in the world's economic recovery and growth. These functions were to facilitate full employment and the re-establishment of stability and order in the post-war economy.

The IMF was assigned to assure the stability of exchange rates and their orderly adjustment by providing balance-of-payments finance. The IMF would occupy the center of a balance-of-payments adjustment system, an unchanging exchange-rate system, and an international monetary system. By using a system of fixed exchange rates in which only small fluctuations would be permitted (except in countries which were chronically suffering and had disequilibrium in their balance of payments) the IMF would maintain monetary stability. The IMF's focus of adjustment was (a) to center on the use of reserves (including temporary funds from the IMF itself), (b) to limit the use of exchange restrictions, and (c) to remove capital flow controls and trade restrictions (Griesgraber and Gunter, 1996).

Therefore the IMF would alleviate the post-war world economy of those ills which had paralyzed the inter-war economy. Responsible for the dysfunctions were currency disorders, competitive devaluations, chronic monetary instability, excessive protectionism, exchange restrictions, barter deals, and other policies. The IMF was designed to function as a 'lender of last resort' to member countries experiencing short-term difficulties in their balance of payments. It would also establish that payment imbalances be equitably resolved and the burden of adjustment shared by both the surplus and deficit countries (Greisgraber and Gunter, 1996).

The World Bank was established to provide capital for reconstruction and development in the world economy. The bank led the reconstruction of post-war Europe. By providing long-term credit, it was designed to rebuild the economies of war-torn nations, as well as bridge any gap that might threaten their peaceful co-existence. It was also to focus on long-term project lending in developing countries. Rich, industrialized nations and their capital markets were to be the source from whom the World Bank would borrow the funds it would then lend to poor nations. The World Bank would function as the intermediary mechanism for cycling surplus resources between global capital markets and underdeveloped countries (Griesgraber and Gunter, 1996).

The fixed exchange rate system collapsed in the early 1970s causing systemic fluctuations in exchange rates. The IMF could hardly match the market-driven exchange rates. The availability of finances from private sources made it unnecessary for developed countries to borrow from the IMF, therefore preventing the requisite leverage for managing interest rates.

In recent years the IMF has made its prime concern the medium-term adjustment of developing countries balance-of-payment accounts, as it has been forced to turn its attention

away from developed countries and exchange rates. This has resulted in a dual function of the Bank. This has necessitated a division of labor between the two. The IMF is restricted to offering macroeconomic inputs to programs run by the Bank and has given up its independent programs in the poorest developing countries. The Commission argues that there is still need for a development finance institution like the World Bank today, even in a new financial world characterized by increased availability to private-sector equity and bond finance. However, the following three rules must be applied (Griesgraber and Gunter, 1996):

- 1) The Bank should concentrate its assistance to those countries where the need is greatest, using the criteria of income and access to financial markets to assess need.
- 2) As part of adapting to a world that has turned from public-sector dominance towards private enterprise and free markets, the Bank must operate on the principle that development assistance should be directed only at what the private sector cannot or will not do.
- 3) The Bank must seek out ways of working with and for the private sector.

### **United States' Interest in the World Bank Today**

Today, the World Bank functions as a multilateral bank (MDB), meaning it is an independent international agency which finances development programs in poor countries. This is done using money borrowed from world capital markets or contributed by developed country governments. The International Monetary Fund is a monetary institution and not a MDB. However, its policies affect the economic conditions and prospects of its borrower countries.

The United States has joined seven regional banks. These are: the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, the Inter-American Development Bank (IDB), the Bank for Economic

Cooperation and Development in the Middle East and North Africa, and the U.S. is in partnership with Mexico in the North American Development Bank. These multilateral development banks are the largest source of development aid for low- and middle-income countries. In 1994, they lent over \$33.66 billion. Over 69 percent of all multilateral development aid in 1994 was accounted for by the World Bank (Sanford, 1997). The table below shows the distribution of US Multilateral Economic Aid for FY 1997 and that requested for FY 1998 (Novels, 1997):

Table 1: Foreign Operations Appropriations: Discretionary (millions of dollars) taken from (Novels, 1997).

Multilateral Economic Aid	FY 1997 (Enacted)	FY 1998 (Requested)	House Bill	Senate Bill	FY 1998 Conference
World Bank - IFC	6.7	--	--	--	--
World Bank - Intl Dev Assoc	700.0	1,034.5	606.0	1,034.5	1,034.5
World Bank - Environment Fac.	35.0	100.0	35.0	60.0	47.5
Inter-American Dev Bank	63.1	76.4	46.4	76.4	76.4
Asian Dev Bank	113.2	163.2	113.2	163.2	163.2
African Dev Fund	.0	50.0	50.0	.0	45.0
European Bank for R & D	11.9	35.8	35.8	35.8	35.8
North American Dev Bank	56.0	56.5	56.5	56.5	56.5
IMF - ESAF	.0	7.0	.0	.0	.0
Intl Organizations & Programs	169.9	199.0	194.0	177.0	192.0

Total, Title IV - Multilateral	1,115.8	1,722.4	1,136.9	1,603.4	1,650.9
--------------------------------	---------	---------	---------	---------	---------

Today the World Bank has four main functions (Sanford, 1997):

- Making market-based loans through the International Bank for Reconstruction and Development (IBRD)
- Making concessional loans through the International Development Association (IDA)
- Providing credit, equal capital, and advice to private firms through the IFC, and
- Insuring private foreign investment in developing countries through the Multilateral Investment Guarantee Agency (MIGA).

The World Bank and IMF have often been criticized for not reaching their original objectives. While the Articles of Agreement of the IMF have been amended twice (in 1969 and in 1978), the original statement of purposes remains unaltered (Goode, 1985). The Bank's current role in fighting poverty seems to indicate that it is still striving to achieve its original mandate, to provide capital for reconstruction and development. The difference is that today the Bank's attention has turned from war-torn Europe to the world's poorest countries.

### **Focus on Poverty**

The essence of development is improving one's level of well-being by enabling the individual to be productive. The Bank's efforts to enhance development should have the ultimate effect of raising the standard of living and reducing poverty. Today over 1 billion

people live in deep poverty, with per capita incomes of less than a dollar per day. Basic conditions must be improved through lowering population growth, and improving primary education, sanitation, health and nutrition.

NGO's have been involved in a number of policy changes that the Bank introduced in the late 1980's, these are (Griesgraber and Gunter, 1996):

- Systematic attention to environmental issues in project and policy work, and the establishment of a Vice Presidency for Sustainable Development, including Environment Department,
- Greater attention to the role of women in development,
- Greater attention to poverty issues that arose as a consequence of structural adjustment lending, especially in Sub-Saharan Africa (SSA), and the ensuing 'Poverty Reduction Program,'
- Greater participation in project preparation and implementation by people directly affected by these projects,
- Establishment of an Inspection Panel to bring complaints about projects to the attention of the Bank management and Executive Directors, and
- Establishment of a public information center and increased availability of project and economic documents.

The bank is experiencing an institutional revolution that is still in progress. Working together with NGOs, the World Bank has transformed itself into an identity whose main focus is on poverty reduction, as stated in *The World Development Report 1990*. An increasing proportion of lending has been dedicated to directly fighting poverty. Structural adjustment loans have been redesigned to ensure they do not adversely affect the poor. Some loans were even made to improve the social services delivered to the poorest populations.

It is said that women suffer most from poverty. The bank has given great attention to

educating women in order to aid in the reduction of population growth. A higher proportion of loans are being given now for human resource development that concerns women's issues.

The Bank loans primarily targeted for poverty reduction, especially for women and children, through education, basic infrastructure, productivity of small farmers, sanitation and water supply and basic health conditions amounted to 12-15 percent of total lending in 1991 and 1992. Human resource development lending (for education, health, nutrition, and family planning) has tripled since the early 1980s and is now at 15 percent of total lending (Griesgraber and Gunter, 1996).

The World Bank adopted a two-part strategy in 1992 aimed at eliminating the worst forms of poverty in developing countries by the year 2000 (Sanford, 1997). The first part emphasized the need for increased growth. First, the Bank would finance the construction of infrastructure and other necessary facilities while encouraging countries to adopt incentives and policies encouraging broad-based economic growth. Second, the growth would be supplemented with specifically defined poverty alleviation programs. This would ensure that the poor both gained from the growth, as well as contributed to it.

In 1993, plans were announced by the WB to cut the share of the world's population facing hunger in half in the next twenty years (Sanford, 1997). The World Bank also said it would place more emphasis, via microenterprise lending, on activities designed to meet the credit needs of poor borrowers, normally not considered creditworthy. Since then the Bank has acted to expand its support for microenterprise.

### **Microlending**

Since it was first introduced in Bangladesh in 1976, microlending has gained wide

acceptance. This practice of matching small amounts of seed capital with the talents and entrepreneurship of people is simple and effective. Micro lending can revitalize entire communities by improving the lives of hundreds of thousands of people. This involves making small loans to businesspeople, allowing them to start a business doing anything from fixing shoes to selling oranges.

Groups of small entrepreneurs, individuals who can offer lenders no collateral because they own no assets, are formed. These individuals “collateralize” each other. All members of the group depend on each other to repay their loans. All individuals forfeit the chance for future loans if one member fails to repay his/her loan. This approach combines peer pressure and mutual support, and has produced pay back rates at approximately 98 percent (Trickle-up Economics, 1997). This is better than the pay back rates for individual loans.

Since its start two decades ago, the number of micro lending institutions had expanded to 6,000. Micro lending organizations (charitable foundations, government agencies, and nonprofit groups) now reach approximately 8 million people on six continents. A number of these lenders do not offer below-market interest rates but instead recoup their administrative costs by charging market rates and by securing their microloans (Trickle-up Economics, 1997).

This growth appears likely to continue. In a microcredit summit in Washington in February, 1997, a plan to reach 100 million poor families worldwide by 2005 was endorsed by 2,000 participants. Among these participants, the World Bank pledged new funds for microlending institutions (Trickle-up Economics, 1997).

### **World Bank’s Role in Microlending**

In June of 1996, the World Bank’s IFC helped launch a \$35 million dollar fund to invest

in microbanks in Latin America and the Caribbean, called Profund (Microlending: From Sandals to Suits, 1997). Last year, World Bank (WB) officials approved a \$100-million concessional credit to help over 100 nongovernmental organizations in Bangladesh expand microlending to 1.2 million poor. Most of these borrowers were female. Microcredit programs for rural communities in Albania and victims of war in Bosnia have also been funded by the World Bank (Experts Cite Limitations of Microcredit, 1997).

Ismail Serageldin, Vice President of the WB, said the Bank would do its part to promote high standards and the best practices in microcredit programs. This would involve the International Finance Corp. (IFC), “the private-sector arm of the WB group,” which would work to build bridges between microfinanciers and the commercial sector, but would be primarily done through the Consultative Group to Assist the Poorest (CGAP) (Experts Cite Limitations of Microcredit, 1997).

In 1995, the CGAP was announced by the WB as a new initiative to support the microenterprise sector. It is a multi-donor attempt to lower poverty by focusing resources in microfinance. It strives to expand the successful work of the pioneer institutions. This was an effort begun by a Consultative Forum in June 1995, attended by 100 people, of which half were donors, and half were microlending practitioners. The World Bank was among the founding members. The CGAP was designed to last three years, but it is not known if it will end in 1998 (Platt, 1997).

### **World Bank’s Involvement in Africa**

The Bank’s strong commitment to successful rural development can be seen in Guinea,

Malawi, Mali, Mauritania, and Uganda. These countries show the Bank's focus for monitoring the progress of rural development in areas other than agriculture and water supply, like poverty reduction, the provision of transport, and providing financial services to rural populations. The World Bank's support of private sector development focuses on strengthening microenterprises. In rural development, microenterprises play a vital role. In the Republic of South Africa, a model "microenterprise intervention" was achieved (World Bank Annual Report, 1997). This happened when the World Bank aided in the assembly of a team of international microfinance experts to work with South African NGOs, bankers, and government officials in an effort to expand access to financial services. The group proposed an apex organization as the centerpiece of its micro- and small-enterprise development program. The government adopted the group's proposal and this became operational in FY 1997.

### **World Bank's Involvement in South Asia**

On July 16, 1997, the World Bank announced that it had provided \$2.011 billion in loans, credits and guarantees to South Asia for FY 1997. For the Bank's 19 project lending commitments, this included \$1.385 billion from the International Development Association (IDA) and \$626.5 million in loans from the International Bank for Reconstruction and Development (IBRD). These disbursements increased by more than \$400 million to a total of \$2.668 billion (World Bank Provides US \$2 Billion Loans to South Asia in FY 1997, 1997).

Disbursements were made as follows (World Bank Provides US \$2 Billion Loans to South Asia in FY 1997, 1997):

	FY 1997	FY 1996
India	\$1.563 billion	\$1.309.5 billion
Pakistan	\$644.6 million	\$521.1 million
Bangladesh	\$314.56 million	\$226.6 million
Sri Lanka	\$87.72 million	\$108.9 million
Nepal	\$58.42 million	\$82.4 million
TOTAL	\$2.668 billion	\$2.253 billion

The assistance program's main goal for FY 1997 was to provide high-quality services and innovative and efficient programs by involving broad community participation and working with partners.

The main efforts of the Bank's strategy involve helping countries improve their fiscal situation and move forward with reforms that will increase investment and savings, and attract foreign capital, therefore increasing the region's growth rate in a sustainable way. Priority was given to complementing the reform effort with programs to assist the region's human development, since social indicators remain weak (World Bank Provides \$2 Billion Loans to South Asia in FY 1997, 1997).

Among the projects that make up lending efforts to the South Asia region for 1997, is the Bangladesh Poverty Alleviation and Microfinance. This is (World Bank Announces FY 1997 Lending Results to South Asia Region, 1997):

A US\$ 105 million IDA equivalent credit which is being provided to more than 100 NGOs in an effort to expand microlending to 1.2 million poor and mostly female borrowers. Through training, research, impact evaluation, and disseminating best practices for increasing cost effectiveness, this project will also strengthen the institutional and financial viability of the lending agencies.

## **Future of Microcredit and the World Bank's Role**

Microcredit is still far from the financial mainstream, but shows particular promise. Now over \$ 1 billion a year is lent to 8 million people throughout the world. There are even approximately 300 microcredit programs in America. Microcredit is seen as a cost-effective solution to alleviate poverty. By 2005, it is hoped that 100 million poor entrepreneurs will have access to microcredit. This "Microcredit Summit Declaration" has a price tag of \$21.6 billion and a specific plan of action (Microlending: From Sandals to Suits, 1997).

Despite the promise that microlending shows, some believe that danger lies in the overly-rapid expansion of this tool. They fear that offering too much money to poor entrepreneurs is a recipe for failure. Many say that if microcredit expands tenfold in eight years it may damage other forms of aid. The UK government's Overseas Development Administration (ODA) says, "Everyone agrees that microcredit is a good thing, but that doesn't mean the best way to make it flourish is to pour money down its throat." The ODA claims a tenfold increase may overburden the microcredit movement. "What we will have, if we're not careful, is no shortage of funds flowing to too few microcredit organizations, which cannot cope." A development consultant to Oxfam and co-author of a book on microcredit, Mr. Ben Rogaly is concerned that the microfinance interest could take away funds from less popular anti-poverty causes, such as famine relief. Approximately \$7.5 billion in new spending from the official aid budgets was called for in the Washington summit's plan of action. The World Bank's Consultative Group to Assist the Poorest anticipates spending all of its expected donor pledges (\$200 million) on microlending (A Leap in the Dark with Microloans: Small-scale Credit Could Help Half the World's Poor, Reports Simon Kuper, 1997).

Another question is whether there is an indefinite supply of microentrepreneurs. These skills may be innate. “India and China, for example, are very entrepreneurial, while in Russia appears to be more difficult for people to develop businesses,” says Women’s World Banking (A Leap in the Dark with Microloans: Small-scale Credit Could Help Half the World’s Poor, Reports Simon Kuper, 1997).

World Bank may serve more women in the future. The President of Women’s Asset Management, Inc, said (Prepared testimony by Michaela Walsh, President Women’s Asset Management, Inc, Director, Zimbabwe Progress Fund (Private) Ltd, before the Senate Committee on Foreign Relations Subcommittee on African Affairs, Women and Capital in Africa, 1996):

The World Bank and other institutions have not yet made a full commitment to ensuring that women are served by the capital marketplace. If a portion of all funds and information do not flow to women entrepreneurs, women will remain marginalized, economies will not grow productively, and opportunities will be lost. This will lead to harmful economic consequences, over and above the harm that will be done to the women themselves, as well as to the loss of an opening for change in societies that must be encouraged to move toward greater freedom.

She later commended the World Bank for recognizing the important contribution that microenterprise can make to strong free market economies, specifically mentioning the World Bank’s new \$30 million fund for microenterprise (Prepared testimony by Michaela Walsh, President Women’s Asset Management, Inc, Director, Zimbabwe Progress Fund (Private) Ltd, before the Senate Committee on Foreign Relations Subcommittee on African Affairs, Women and Capital in Africa, 1996). She felt that the Fund would serve as a catalyst for new resources to enter local economies. Microlending’s success will depend the design, management, and evaluation occurring from the inside, not the outside. The natives themselves must participate in

the design of the microlending programs, be responsible for the management structures, and help identify local opportunities for reinvestment.

Lastly, Ms. Walsh recommended that (Prepared testimony by Michaela Walsh, President Women's Asset Management, Inc, Director, Zimbabwe Progress Fund (Private) Ltd, before the Senate Committee on Foreign Relations Subcommittee on African Affairs, Women and Capital in Africa, 1996):

The President of the World Bank set up an independent Council of women entrepreneurs and investment bankers to identify the restrictions and costly barriers faces by most women as they try to obtain financing or enter the capital markets. This Council would formulate a range of opportunities for the Bank (and other financial institutions) to help remove those barriers, to recommend how a greater percentage of available capital can be invested through women-run businesses and to assure that women participate more fully in the development of the private sector of their countries.

In conclusion, the positive effects of microlending may soon have an impact on our own country and the World Bank's role in microlending may in the future be closer to home. As stated by the First Lady (The White House, Remarks by First Lady and Secretary of the Treasure at Microenterprise Awards Ceremony, 1997):

These micro-lending networks and the small businesses they create can be important tools in our efforts to move Americans off welfare and to give working but poor Americans more of a chance to realize their own potential. The loans represent not only an infusion of cash into a business but also an infusion of confidence in a recipient's ability to succeed...small neighborhood businesses created with micro-loans can bring much-needed jobs, goods, services, and opportunities to low-income areas. They are already showing that they can help reclaim our cities and destitute rural areas from decay and decline.

### Reference List

- A Leap in the Dark with Microloans: Small-scale Credit Could Help Half the World's Poor, Reports Simon Kuper. (1997, January 31). The Financial Times (London), p. 4.
- Experts Cite Limitations of Microcredit. (1997, February 17). Businessworld (Manilla).
- Goode, Richard. (1985). Economic Assistance to Developing Countries Through the IMF. Washington, DC: The Brookings Institution.
- Griesgraber, J. M. & Gunter, B. G. (1996). The World Bank: Lending on a Global Scale. Chicago: Pluto Press.
- Microlending: from Sandals to Suits. (1997, February 1). The Economist. p. 75.
- Novels, Larry. (1997). Credit Programs: Micro and Small Enterprise Development Programs. Washington, DC: Library of Congress.
- Platt, Goron. (1997, January 22). Small Loans Net Big Results. Journal of Commerce, p. 1C.
- Prepared testimony by Michaela Walsh, President, Women's Asset Management, Inc, Director, Zimbabwe Progress Fund (Private) Ltd, before the Senate Committee on Foreign Relations Subcommittee on African Affairs, Women and Capital in Africa. (1996, July 11). Federal News Service.
- Sanford, Jonathan E. (1997). Multilateral Development Banks: Issues for the 105<sup>th</sup> Congress, Updated November 13, 1997. Washington, DC: Library of Congress.
- Transcript of Remarks by First Lady at Microcredit Summit. (1997, February 3). U.S. Newswire Inc.
- Trickle-up Economics. (1997, February 6). Journal of Commerce, Inc. p. 6A.
- The White House: Remarks by First Lady and Secretary of the Treasury at Microenterprise Awards Ceremony. (1997, February 6). M2 Communications Ltd.
- World Bank Announces Fiscal 1997 Lending Results to South Asia Region. (1997, July 16). M2 Communications Ltd.
- World Bank Annual Report 1997, World Bank, Washington, D.C.
- World Bank Provides US \$2 BLN Loans to South Asia in FY97. (1997, July 16) Asia Pulse: Nationwide Financial News, Washington. v.et d @1.
- World Development Report 1990. Lexis/Nexis. <http://www.ftp.worldbank.org/html/extpb/wdr95/WDRENG.html#Development>. (Accessed 1997, Sept 30).

# 14

## **Microcredit Strategies: Pluses, Problems and Possibilities**

Wilson Tan

*Nurjahan is a borrower of the Grameen Bank in Bangladesh. Her name means "the light of the world." Abandoned by her parents at three months of age and raised by a neighbor, Nurjahan was married at twelve-only to be abandoned by her husband a year later, while three months pregnant. She returned to the family who raised her, cooking for them while raising her son.*

*Before joining the Grameen Bank, Nurjahan had never earned more than US\$37.50 in a year and owned no land. After five years with Grameen. Her annual income is US\$250 (just above the national average) and she owns two goats, one pregnant cow, ten hens, and two-thirds of an acre of land. The land cost US\$1000, more than four times the average annual income. Seasonally, she employs two farm hands to assist with her rice crop. In a country where only 46 percent of the children reach grade 5, Nurjahan's son is now in 8th grade.*

("Microcredit," 3)

The story is familiar. An impoverished woman, exploited and desperate, finds the Grameen Bank, borrows a small amount of capital, starts a small business of her own, turns both her life and her family's life around, becomes a full-fledged mini-capitalist, and succeeds in joining the ranks of the lower middle class in her country. This concept of providing small loans to the poor is called microcredit and has recently become the talk of the town with regards to alleviating poverty and development in Third World countries. What is more, thousands of such incidents are reported in numerous developing countries daily. Suddenly, microcredit and

microenterprise have become the key vocabulary words in the combat against poverty.

### **Microcredit defined**

Microcredit is defined as a loan which a financial institution gives to the poorest people, who do not have any collateral, to start small businesses ("Summit," 1). Traditionally, banks only provide loans to people who have some form of collateral to guarantee that the banks get back their credit. Microcredit turns the traditional banking concept upside down by giving loans to the very poor in order to assist them to become self-reliant through self-employment. In the words of John Hatch, founder and chairman of ACCION International, microcredit is designed to allow the poor to "participate in the free market system" (qtd. in United States "Value," 17).

### **Support for Microcredit Enterprises**

Microcredit lending or microlending seems a very viable alternative in helping the poor become more self-reliant. By providing the needed loan, albeit a small one, the impoverished are given the badly needed break to begin improving their lives through starting their own microenterprises. There are a number of reasons why microcrediting has become a popular development tool today in the effort to alleviate poverty. The following are some of the main reasons:

#### ***The possession of assets brings about positive changes in behavior***

In a congressional testimony Professor Michael Sharraden of Washington University expressed a general view that is driving support for microcredit programs:

*When people begin to accumulate assets, their thinking and behavior change as well...they think in the long term and how they can use the assets to meet long term goals. Assets are hope in a concrete form. With assets, people work extra hard to maintain and improve what they have.*

(qtd. in United States, "New Strategies," 7)

The concept is that people's behavior will change when they have an opportunity to increase their assets or possessions. Because the poor has traditionally been denied this opportunity, microcredit provides them with the initial capital to begin improving their lifestyles.

***Self-employment is essential in life***

According to Dr. Muhammad Yunus, founder and managing director of Grameen Bank, every microloan a poor individual takes from Grameen Bank for a microenterprise endeavor, is a ticket to self discovery. In Grameen terminology, self employment is the key to human life ("Grameen," 15). Not only does it provide the poor with resources to sustain themselves, it also gives them a sense of pride and self-worth because what they begin to have is ultimately a result of their own efforts.

***Millions of microentrepreneurs are already in developing countries***

One argument to support the microenterprise endeavor is the fact that about 50 to 70 percent (about 500 million people) of the labor force in developing countries are already made up of the self employed poor—microentrepreneurs ("Microenterprise," 1). The problem is, many of these people are unable to obtain legitimate loans to help them with their businesses and they usually end up at the mercy of loan sharks. Microcredit, thus, seems to be a promising method to assist these poor entrepreneurs in obtaining loans legitimately and safely.

***Economic policies destroy job opportunities***

Kavaijit Singh, Nan-Dawkins Scully, and Daphne Wysham pointed out that numerous macroeconomic policies and the effects of globalization have destroyed many jobs in the formal sector (2). They further explained that drastic cuts the World Bank imposed on structural adjustment programs, together with the absence of any social safety net, had resulted in difficult

situations for the poor. In other words, there is no other way for the poor to survive except through self-employment, the preferred method of microcredit institutions. Microlending provides support to the poor through easy access to loans to help them start their own small businesses.

### ***Microcredit is revolutionary***

Because of the overwhelming global economic forces that constrain Third World countries, many grassroots development efforts fail in the economic area rather than in the social area (Durning, 28). While there has been consistent success in developing the areas of health and education, grassroots organizations have a problem in the area of economic development. Microcredit, thus, becomes a popular tool because it focuses on an area which has not been deemed an area of proven success. On top of that, the successes of microcredit experiments in many developing countries increases its appeal as a development method of the 90s.

### ***Microenterprises find favor with the world's leaders***

From Hillary Clinton to the ex-Prime Minister of Japan to numerous aid agencies ("Summit," 4-5), microenterprise has been lauded as a credible instrument in the war against poverty. In 1994, the US congress and US AID launched the Microenterprise Initiative which committed to spend \$140 million on microcredit in 1996 ("Congressional," 1). Many such initiatives have taken place since then. With support from such individuals and agencies, coupled with the success stories of institutions like Grameen Bank, ACCION, and FINCA, there is little room left to doubt the microenterprise movement.

### ***Financial apartheid keeps the poor, poor***

Yunus claimed that the poor remained poor because of financial institutions which refuse

to provide credit for them, a situation which he termed "financial apartheid" ("FINANCE," 2).

He added that in a world where "money begets money," the poor can overcome their situations if the experience of the Grameen Bank can be replicated. The success of his institution has become the driving force for many other replicate programs all over the world which attempt to end "financial apartheid."

### **Taking the Microcredit Ride**

Why is it that everybody is suddenly excited about another poverty alleviation innovation that appears to be too good to be true? The following statements seem to sum up the faith and positive attitude towards microcredit.

Hatch pointed out that "microenterprise is on the brink of becoming for the poor what the green revolution was for agriculture" (qtd. in United States "Value," 14). He admonished national leaders, and leaders of applicable support organizations to take microenterprise seriously now or "forfeit an opportunity of historic proportions." The vision that microcredit can change the world in a big way is certainly a driving thrust in the support microenterprise is receiving.

Singh, Scully, and Wysham gave four reasons why everyone is jumping on the microcredit bandwagon:

1. Microenterprise is viewed as a potential leader in empowering women.
2. It is an opportunity for multilateral banks to move away from capital intensive "development as charity" to the more profitable "development as business."
3. There is a great deal of money to be made in microlending.
4. It is a win-win situation for the lending institution and the loaner (1).

Benjamin A. Gilman, Chairman of the Committee on International Relations of the House of Representatives, claimed that microcredit can be seen as a "hand up" and not a "hand out" in an era of budget cutting to identify foreign assistance programs that are "real winners" (qtd. in United States "Value," 1).

Thus, it is clear that because of the belief that microenterprise can deliver a number of things—empowerment for women, national recognition, poverty alleviation, profits—and the fact that it has delivered on many occasions, the microcredit movement is gathering positive momentum. After the recent Microcredit Summit in February, where hundreds of people and organizations from all over the world met to discuss this microrevolution, microlending and microenterprise may very well be the single most talked about event in the world of development. Yet, does this highly recommended program, made famous by the Grameen Bank of Bangladesh, deliver? Or, is it merely political and economic rhetoric by lending institutions to increase revenue?

### **Poverty defined**

In 1995, it was estimated that more than 1 billion people, or one-fifth of the world's population, lived in extreme poverty, which is deemed the leading cause of death today ("Enough," 1). There is an extreme contrast between the lifestyles of the affluent and the poorest peoples. While many live in abundance and material prosperity, many others struggle daily just to put food on the table.

In a speech given at Brigham Young University, Yunus claimed that poverty is not created by the poor but rather by the institutions around them, especially banks. Alan B. Durning pointed out that in the 1980s, the main causes of poverty were resource depletion,

environmental degradation, high interest rates and colossal debt burdens, excessive population growth, restrictive economics, protectionism, poor prices for commodities produced by developing countries, and governments that were unwilling to implement controversial programs (28). The situation today is still very much the same.

Many of the poor remain poor despite many government aid programs implemented to assist them. Looking at the Grameen experience, it is not surprising that microenterprise and microcredit emerge as the major weapons in people's arsenal today to combat the social ill called poverty.

At this point, however, it is necessary to look at the disadvantages of a much touted program that seems too good to be true—is microcredit all it is made out to be, or are there negative effects which need to be considered as well? The following section will discuss in some detail the potential problems and pitfalls related to microcredit and its related enterprises.

### **Microbugs: Problems related to microcredit and microenterprise**

It must be remembered that no movement or program exists that has no problems. This section is merely an attempt to study some of the "bugs" which may plague investors and beneficiaries of microcredit programs. In the words of Hirshman, "There are no successful projects, only those with less problems" (qtd. in Tendler, 31 ). Microcredit and microenterprise are no exceptions.

#### ***Replicability***

The problem of replicating the success of the Grameen Bank is a real one. An analysis of Grameen's success must include an overview of the conditions in Bangladesh. Bangladesh has a population of 109,579,000 with a density of 1971 persons per square mile. The ethnic

composition is 97.7 percent Bengali, 1.3 percent Bihari, and 1 percent tribal natives. The official language, Bengali, is spoken by almost 103 million people in the population. In the 70s, Bangladesh was devastated by a war, and in the 80s it was struck by a disastrous flood which left 25 million people homeless and three quarters of the nation underwater. The unemployment rate is 30 percent with a job composition of 11 percent industry, 74 percent agriculture, and 15 percent services (East). It is under these adverse conditions that the Grameen Bank gained its phenomenal success as a microlending institution and poverty fighter.

Microcredit institutions need to be aware of these conditions before implementing their programs, because a different job and population composition could result in a very different success rate which may need a very different implementation program. Also, the concept of poverty and need is different for every nation. Cultural differences pose a problem, as well. Because of all these factors, replication of successful microcredit models such as Grameen's may not be appropriate in other nations where conditions are significantly different. For example, the caste system in India may prove to be a great barrier in microenterprise development because people would not form alliances across castes (Yunus "Grameen," 154). Another example of a cultural barrier pointed out by Yunus is the anti-loan attitude adopted by Muslim fundamentalists in Pakistan ("Value," 24).

### ***Focus on profit, not poverty***

Microlending has a potential of making huge profits because of its higher than market rate interest and greater than 94 percent loan returns. Because of that, many financial institutions may jump onto the microcredit bandwagon for profit purposes rather than alleviation of poverty purposes. This attitude and practice could severely affect the poor who borrow from these

institutions.

According to Gina Neff, by the end of the conference, the Microcredit Summit seemed nothing more than an international "pep rally" for banking ("Microsubmitting," 1). Singh, Scully, and Wysham also cautioned about the importance of distinguishing between two types of microlenders—those whose primary goal is empowerment of the poor and those whose primary goal is profit. It is the latter group, they point out, that keep the poor in debt by charging exorbitant interest rates (2). The problem with hard selling microcredit is the possibility that banks may gain and adopt the perception that they can make money from the poor.

***Detraction from needed aid programs***

Duncan Millar warned that microcredit efforts could redirect aid away from other programs like basic health and education programs and urged that the participants at the Microcredit Summit do not seek to reallocate resources from existing anti-poverty budgets to microfinance programs (1). Paul Grosen of the United Nations Capital Development Fund added this insight: "The poor are creditworthy, yes, but sometimes, grants—such as capital for startups, training programs, technology upgrades, capacity building, and rehabilitation —are more appropriate approach[es] to reducing poverty than loans" (qtd. in Neff "Microsubmitting," 3).

The concern is that the increased attention to microcredit efforts may actually entice aid agencies such as the World Bank to cut down on existing support to other needed areas such as welfare programs that millions of poor people depend on for subsistence survival. Any drastic change in their aid may adversely affect the living conditions of these people's already difficult lives. Microcredit, thus, becomes a convenient device for governments who are eager to cut

spending on domestic and foreign poor.

### ***Loans not used to alleviate poverty through microenterprise***

One of the greatest criticisms of microcredit is the fact that many of the poor who take loans from microcredit institutions do not actually end up using the loans for the purpose they were loaned it. Instead, those loans were used to meet the poor's daily consumption needs (Singh, Scully, and Wysham, 1). Neff further pointed out that despite eight years of borrowing, about 55 percent of Grameen households are still unable to meet basic nutritional needs ("Microcredit," 1). In situations where people are too poor to even put a meal on their tables, these loans may be used to survive. Lack of capability to be microentrepreneurs can drive the poor to take advantage of these loans to meet their immediate needs. A resultant evil from this is that they end up further in debt.

### ***Time***

One of the problems with microcredit enterprises is that results most often take a long time to be noticeable, especially among impoverished people who need to first build their confidence and esteem levels ("Grameen," 9). Many institutions may stop their support if they do not see results in a number of years. The average Grameen borrower takes almost eight years to get out of the poverty level. Many people would already have given up by then.

### ***Problem of debt***

There is no question that debt entraps people, especially the poor. This has also been a strong criticism of microcredit. Fauzi AI-Sultan, president of the International Fund for Agricultural Development, issued a poignant reminder at the recent Microcredit Summit when he said that every loan taken constitutes another burden to the poor borrower (qtd. in Neff

"Microsubmitting," 3). What is worse is the fact that the poor are even more unable to handle a potential disaster in their microenterprise.

***Adverse impact with regards to exploitation of women***

In a study by Anne Marie Goetz and Rina Sen Gupta, they discovered that a significant proportion of loans women borrowed from Grameen were invested by their male relatives, despite the fact that they were the ones who bore the brunt of those loans. Goetz and Gupta also reported that only 37 percent of women borrowers actually had significant control over their businesses, while another 22 percent did not even know how their husbands, fathers, brothers, or sons used the loan because they were "never involved in the investment process" (qtd. in Neff "Microcredit," 2). It appears that women are either still subservient to the men in their societies, or that the men are using women to get the loans they want. Neff argued that instead of empowering women, Grameen may actually have turned them into "collection agents" ("Microcredit," 2).

***Marketability of microenterprise products***

One issue that has to be dealt with is that the poor microentrepreneur's product may not have a sufficiently large market for the individual to turn a profit. Scully pointed out that the efficiency approach in microlending may be detrimental where there is a "weak market" for the products which microentrepreneurs produce ("Panacea," 2). One has to face the reality of market demand and supply laws. While microentrepreneurs may not be limited by dedication and hard work, they can be severely limited by their skills and ability to market what they produce.

In Singh, Scully, and Wysham's effective analogy, using microcredit enterprises as a

poverty alleviation tool in the current global economic situation is like "giving a man a fishing pole and telling him to go fish in the wake of a giant trawler whose net spans the horizon" (2). Both microlenders and potential microentrepreneurs need to carefully study the feasibility of marketing the product or service before embarking on the microenterprise journey.

### **Summary of Microcredit Constraints**

Mary E. Okelo effectively summed up ten constraints to microcredit development which may lead to problems for microentrepreneurs. These constraints are as follows:

- 1.Lack of available financing
2. Lack of markets for microentrepreneur products
- 3.Lack of appropriate low cost technology
- 4.Restrictive government policies
5. Insufficient data on microenterprises
- 6.Unsupportive social norms
7. Poor management skills
8. Weak accounting practices
9. Poor product finishing
10. Unsupportive institutional or legal structures (243).

With regards to microcredit efforts, both microlenders and microentrepreneurs need to be careful of getting carried away by the microcredit hype. All these constraints need to be analyzed based on existing local conditions in order to prevent costly and potentially devastating effects to the poor.

### **Suggestions**

An analysis of problems related to microcredit enterprises is not complete without suggestions to check or overcome them. The following are some suggestions to address the problems related to running microcredit enterprises as a way to overcome the effects of poverty.

*Alleviation of poverty is a matter of will*

Yunus firmly pointed out that the alleviation of poverty is solely a matter of will ("Microcredit"). To him, the ability to pull oneself up by the bootstraps is the most important step in fighting poverty. Each individual, through determination, has the potential to raise himself or herself out of the dire situation he or she may be in. With the assistance of support programs like Grameen and a steadfast faith in one's self, solutions to the problems related to microenterprise can be found and dealt with. And, like Nurjahan, one can escape from the steel fingers of poverty and raise the standard of living of one's family through faith and hard work.

This suggestion applies to governments and policy makers as well. Through exercising their wills, they can allow microcredit and microenterprises to achieve their full potential and be the needed tools to alleviate poverty in the world.

### ***Ability to dream***

Closely related to the concept of will is the ability to dream. Yunus claimed that "we cannot create something which we cannot imagine first" ("Microcredit"). For both the poor and for society as a whole, the abolition of poverty will remain wishful thinking if they are unable to imagine a world free from the ills of poverty. The strength and power of a great vision cannot be underestimated, as in the case of Dr. Martin Luther King and his dream of human rights in America. Likewise, the solution to poverty and the problems related to microcredit as a weapon against poverty lies in the strength of the collective dream which both the poor and the affluent must jointly create and share.

### ***Political lobbying***

Another key area to ensure the success of microcredit endeavors, with an agenda of alleviating poverty, is political lobbying. A recent example is the lobbying carried out at the

Select Committee on Hunger at the United States Congress. Current policies of the welfare program Aid for Families with Dependent Children (AFDC) limits the total amount of assets owned by families on the program to US\$1000. The aid given is withdrawn when a family's total assets exceed this amount. In his appeal, Congressman Fred Grandy requested the asset base for AFDC recipients to be raised to US\$10,000 instead of the current base of US\$1000 for those families who are involved in microenterprises (qtd. in United States "New," 7). This would allow the microentrepreneur who is starting out to have a "safety net" for basic needs, such as groceries and schooling for the children, while working on the success of the microbusiness.

This effort to legislate actions that will assist poor microentrepreneurs who are just starting out their endeavors helps in many ways to ensure that basic needs are met until a time when the individual is able to become independent.

### *Learn from others' successes*

The Self-Employed Women's Association (SEWA) in India has enjoyed remarkable success in their microcredit and poverty alleviation program. Organized as a union for poor women, SEWA not only offers credit as one of its range of services, but also provides political organizing activities, training in business, leadership, and mediation skills, coupled with project assistance and lobbying support (Neff "Microcredit," 3).

According to Paul Kennel, Grameen's success lies with cost effectiveness and efficiently run programs, active promotion of self sufficiency, and sustainable activities (1-3).

The Grameen model may lack some of the provisions of SEWA and vice versa, but what is important in the effort to alleviate poverty through microcredit is the willingness to learn from

each other and the ability to change and adapt to fit the situations of the host nation.

### *Creation of proper control mechanisms*

One way to overcome the problem of microlending institutions that tend to make profits instead of pursuing the poverty. Alleviation agenda is to create a proper "regulatory and supervisory framework" which is open to close public scrutiny, under which microlending concerns have to operate (Singh, Scully, and Wysham, 2). These bodies will be able to monitor interest rates, collection activities, training programs, and so forth to ensure that the poor are not being exploited. Having such a standard will result in a greater effort on the part of lending institutions to ensure that their activities are legitimate and the interests of their clients are foremost.

### **Conclusion**

There is no doubt that microcredit is a viable alternative to welfare handouts as an instrument to alleviate poverty. There is also no doubt that microcredit has its fair share of constraints and problems. The utilization of a method that is dependent on capitalism will ultimately be constrained by the laws of the market. This fact has to be realized by both microlender and microentrepreneur before any effective strategy can be developed between them to achieve the reality of poverty alleviation. This situation is made evident in an ironic example at the conclusion of the Microcredit Summit in February. Neff recounts that on the last day of the summit, in the vendors' hall where products of microenterprise products are sold, one vendor selling handmade paper notebooks had marked his price down by 50 percent because of poor demand ("Microsummitting," 3). The harsh laws of demand and supply apply to each individual microentrepreneur. He or she must realize that with microenterprise, fishing in the wake of a giant trawler using only a fishing pole, may very well be the reality in one's hope of achieving success through self employment and microcredit.

## References

- "Congressional Action to Support Microcredit." Online. Available:  
<http://www.action.org/microfa.html>.
- Durning, Alan B. World Watch Paper 88: Action at the Grassroots: Fighting Poverty and Environmental Decline. Washington: World Watch, 1989.
- East, Roger et al. "Bangladesh." World Fact File. NY: Facts on File, 1990.
- "Enough is Enough: The Economics of it All." Online. Available:  
<http://www.peoplesfund.com/poorest2.html>.
- "FINANCE: Grameen Founder Seeks Antipoverty Focus on Microcredit." IPS World News 1 Feb. 1997. Online. Available: <http://www.oneworld.org/ips2/feb.micro.html>.
- "Grameen Bank—Banking on the Poor." Online. Available:  
<http://www.action.org/summary.html>.
- Kennel, Paul. "The Big Idea about Small Loans." Online. Available:  
<http://www.worldconcern.org/n022197.html>.
- "Microcredit Summit 2-4 Feb. 1997." Online. Available:  
<http://www.brookes.ac.uk/mcswww.html>.
- "Microfinance Programme: What Works." Online. Available: <http://www.hari@soc.titech.ac.jp>.
- Millar, Duncan. "FINANCE: How Bankable is Microfinance?" IPS World News 27 Jan. 1997.  
 Online. Available: [http://www.oneworld.org/jan27\\_micro.html](http://www.oneworld.org/jan27_micro.html).
- Neff, Gina. "Microsubmitting." Online. Available:  
[http://www.panix.com/dhenwood/micro\\_summit.html](http://www.panix.com/dhenwood/micro_summit.html)

---. "Microcredit, Microresults." Online. Available:

<http://www.panix.com/dhenwood/micro.html>.

Okelo, Mary E. "Support for Women in Microenterprises in Africa." Jacob Levitsky. Ed.

Microenterprises in Developing Countries: Papers and Proceedings of an International Conference. London: Intermediate Technology, 1989. pp. 240-250.

Scully, Nan-Dawkins. "Microcredit: No Panacea for Poor Women." Online. Available:

<http://www.igc.org/dgap/micro.html>.

---. "Women See Gaps, Can't Give Bank Credit for New Loan Program." Bank Check

Quarterly. Online. Available: <http://www.igc.org/dgap/women.html>.

Singh, Kavalilt, Nan-Dawkins Scully, and Daphne Wysham. "Microcredit: Band Aid or

Wound?" Indian Economy Overview. Online. Available:

[http://www.m\\_web.com/aval.html](http://www.m_web.com/aval.html)

Tendler, Judith. "Whatever Happened to Poverty Alleviation?" Jacob Levitsky. Ed.

Microenterprises in Developing Countries: Papers and Proceedings of an International Conference. London: Intermediate Technology, 1989. pp. 26-56.

United States. Select Committee on Hunger. New Strategies for Alleviating Poverty: Building,

Hope by Building Assets. Washington: GPO, 1991.

United States. Committee on International Relations. The Value of Microenterprise

Development. Washington: GPO, 1995.

Yunus, Muhammad Dr. Grameen Bank: Experiences and Reflections. Bangladesh: Grameen,

n.y.

- . "Grameen Bank: Organization and Operation." Jacob Levitsky. Ed. Microenterprises in Developing Countries: Papers and Proceedings of an International Conference. London: Intermediate Technology, 1989. pp. 144-161.
- . "Microcredit and Economic Development in the Third World." Brigham Young University. Provo, November 13, 1997.

# Appendix

## A Directory of Microcredit Programs Around the Globe

Jennifer Frost Cobia

### *Microcredit-related organizations assisting Europe/Eastern Europe*

*Albanian Development Fund*

*World Bank Project*

Rruga e Durrësit

Instituti i Tokave Laprake,

Tirane, ALBANIA

Tel: +042 285 48, 042 35597, 042 35598;

Tel/Fax: +042 348 85

73 Svobody Str., Room 210

Voronezh 394 006, RUSSIA

Tel: +7-0372-776181

*NOA*

Zupaniska 7/11

Osijek, CROATIA

Tel: +385-31-24255;

Fax: +389-31-128-354

*Conorzio Ctm-Mag*

Piazzetta Forzate, 2/3 - 35137

Padova, ITALY

Tel: 39-49-651865;

Fax: 39-49-8755714

*Opportunity Eastern Europe*

Ken Vander Weele,

Dapontegasse 2,

A-1030 Wien, AUSTRIA

Tel: +43-1-715-2598

Fax: +43-1-715-2588

*INITIATIVE MIKRO*

Al. Krasinskiego No. 11-a

Krakow 31-111, POLAND

Tel/Fax: +48-12-22-42-57

*Opportunity Deutschland*

7060 Schorndorf

Alchenbachstr 136

GERMANY

Tel: +49-7181-603 374

Fax: +43-1-715-2588

*IZVOR Foundation*

P-ta Trandafirilor Nr. 33 ap. 43

4300 Tg-Mures, ROMANIA

Tel/Fax: +40-65-163080

*MOJNOSTI*

Ul. Marshal Tito No. 21/2

Skopje 91000, MACEDONIA

Tel: +389-91-123-279

Fax: +389-91-233-319

*Opportunity Russia*

25, Bolshaya Pokrovskaya, Suite 14,

Nizhny Novgorod, 603005 RUSSIA.

Tel./Fax: 7-8312-337227

E-mail: [opport@kis.ru](mailto:opport@kis.ru)

*NACHALA Foundation*

67, Vitosha Blvd.

Sofia 1000, BULGARIA

Tel: +359-2-817254, +359-2-897145

Fax: +359-2-815549

*SOPRICHASTNOST*

Beregovaya/Pervaya Linia No. 97/91

Rostov-on-Don, RUSSIA

Tel/Fax: +7-8632-534133

*Triodos Bank NV,*

Prins Hendriklaan 9-11,

*NEW UNION*

3700 AB Zeist, NETHERLANDS

Tel: +31 30 693 65 00

Fax: +31 30 693 65 55

*AIDE (Association Pour le Droit À L'initiative Economique)*  
 111, rue Saint-Maur  
 75001, PARIS, FRANCE  
 Tel: 01 43 55 98 94  
 Fax: 01 43 55 98 83

*U.S. Russia Investment Fund (USRIF)*  
 17 State Street, 33<sup>rd</sup> Floor  
 New York, NY 10004  
 Tel: 212-504-0400  
 Fax: 212-668-0770

*VOZMOZHNOT*  
 Pamirskaya 11  
 Nizhny Novgorod, RUSSIA 603600  
 Tel: +7-8312-525-497  
 Fax: +7-8312-520-305

### ***Microcredit-related organizations assisting Africa***

*ACCORD headquarters*  
 Francis House 3<sup>rd</sup> floor  
 Francis Street  
 London SW1P 1DQ  
 United Kingdom  
 Tel: 0044-0171-8287611/12  
 Fax: 0044-0171-9766113

*ACCORD-Eritrea*  
 P.O. Box 5538  
 Asmara  
 Eritrea  
 Tel: 002911-1822070  
 Fax: 002911-182121

*Credit Against Poverty (NGO)*  
 Godfrey Mureriwa, Executive Director,  
 Credit Against Poverty,  
 No. 11 Heller Street, Masvingo  
 Zimbabwe, Africa  
 Phone: 263-39-63445 or 64090  
 Fax: 263-39-62764  
 E-mail: [ZUBF@mango.zw](mailto:ZUBF@mango.zw)

*FADU (Farmers Development Union)*  
 2<sup>nd</sup> Floor, Brown House  
 Monatan Bus Stop,  
 P.M.B. 56, Agodi, P.O.  
 Ibadan, Oyo State, Nigeria

*Southern Zone Credit and Savings Scheme*  
 Mandefera  
 Eritrea  
 Tel: 002911-611316  
*PRIDE Tanzania*  
 P.O. Box 13900,  
 Arusha, Tanzania.  
 Tel: 255-57-2945;

*Get Ahead Foundation*  
 P.O. Box 3776  
 Pretoria, SOUTH AFRICA, 0001  
 Tel.: (012) 320 6530;  
 Fax.: (012) 320 8286

*Government of Egypt, Social Fund for Development*  
 Head Office  
 1, Hussein Hegazy Street (off Kasr El-Aini Street)  
 Cairo, EGYPT  
 Tel: 3540077, 3559877, 3545035  
 Fax: 3561660, 3550628  
 E-mail: [sfdmis@powermail.intouch.com](mailto:sfdmis@powermail.intouch.com)

*Ouelessebougou-Utah Alliance*  
 1025 South 700 West  
 Salt Lake City, UT 84104  
 Tel: (801) 887-1225  
 Fax: (801) 978-9565

*PRIDE AFRICA, Washington Office*  
 1600 Wilson Boulevard, Suite 500,  
 Arlington, VA 22209, USA.

*PRIDE AFRICA headquarters (Promotion of Rural Initiatives and Development Enterprise (NGO))*  
 P.O. Box 39320,  
 Nairobi, Kenya.  
 Tel: 354-2-749511;  
 Fax: 254-2-745363;  
 E-mail: [PRIDE@africaonline.co.ke](mailto:PRIDE@africaonline.co.ke)

Fax: 255-57-4050;  
 E-mail: [ptz@africaonline.co.ke](mailto:ptz@africaonline.co.ke)

*PRIDE Uganda*  
P.O. Box 7566  
Kampala, Uganda.  
Tel: 256-485-20826;

E-mail: [PRIDE@starcom.org](mailto:PRIDE@starcom.org)

*Microcredit -related organizations assisting Latin America and the Caribbean*

*ACCIÓN International*  
120 Beacon Street,  
Somerville, MA 02143 - USA  
Tel: (617) 492-4930  
Fax: 617-876-9509

Juticalpa, Olancho, HONDURAS  
Tel./Fax: (504) 85 1381

*CDRO (Cooperative Association for Western Rural Development, Cooperación para el Desarrollo Rural de Occidente)*  
Executive Director, Gregorio Tzoc Norato  
Tierra Blanca Poxtuj  
Totonicapán, GUATEMALA  
Tel: (502) 9 66 2175 or 2177 or 2179;  
Fax: (502) 9 66 2183

*FENAPE (Federação Nacional de Apio aos Pequenos Empreendimentos)*  
SHIS QI 07 Bloco B Salas 203/204 - Entrada 24  
Lago Sul - Brasília-DF - CEP 70615-570  
Tel: (061) 248-7132;  
Fax: (061) 248-5513;  
E-mail: [fenape@ax.apc.org](mailto:fenape@ax.apc.org)

*CEAPE Network (Small Business Support Centers)*  
*FENAPE*  
SHIS QI 07 Bloco B Salas 203/204 - Entrada 24  
Lago Sul - Brasília-DF - CEP 70615-570  
Tel: (061) 248-7132  
Fax: (061) 248-5513  
E-mail: [fenape@ax.apc.org](mailto:fenape@ax.apc.org)

*FONCAP (Fondo Fiduciario de Capital Social)*  
Secretaria de Desarrollo Social, Presidencia de la Nacion  
Pte. Juan Domingo Perón  
524 PB (1038)  
Capital Federal, REPÚBLICA ARGENTINA

*COPEME (Consortio de ONG's que apoyan a la Pequeña y Micro Empresa)*  
León Velarde 333  
Lima 14, PERÚ  
Tel: 51 1 4719526  
Fax: 51 1 4716816  
E-mail: [postmaster@copeme.org.pe](mailto:postmaster@copeme.org.pe)

*Instituto de Fomento a la Comercialización Campesina (IFOCC)*  
Jr. Humberto Luna 204,  
Barrio Magisterial - 1ra. Etapa,  
P.O. Box 641, Cusco, PERÚ  
Tel: (+51) (84) 23 3142  
Fax: (+51) (84) 23 3005  
E-mail: [ifocc@ifocc.org.pe](mailto:ifocc@ifocc.org.pe)

*Emprender Fundación para el Desarrollo de la Microempresa (EMPRENDER) (NGO)*  
Emprender  
Sobremonte 2097 Piso 1°  
1646 Virreyes, ARGENTINA  
Tel/Fax: (54-1) 746-4004/3993/2237  
E-mail: [102213.3460@compuserve.com](mailto:102213.3460@compuserve.com)

*Inter-American Development Bank*  
Microenterprise Unit, E0421  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, DC 20577  
Fax: (202) 623-2307  
E-mail: [sds/mic@iadb.org](mailto:sds/mic@iadb.org)  
Website: [www.iadb.org/ENGLISH/index\\_english.html](http://www.iadb.org/ENGLISH/index_english.html)

*FAMA (Family and the Environment, Familia y Medio Ambiente)*  
Executive Director: Camila Elvir  
Apartado Postal 115

*Katalysis/Honduras*  
Apartado Postal 3622  
San Pedro Sula, Cortéz, HONDURAS  
Tel: (504)52 57 53;  
Fax: 001 (504)52 61 78;  
E-mail: [katrfohon@mayanet.hn](mailto:katrfohon@mayanet.hn)

*Microcredit-related organizations assisting strictly Latin America and the Caribbean (cont.)*

*Katalysis-North/South Development Partnership*  
*Katalysis/USA*  
1331 N. Commerce St.

Stockton, CA 95202 USA  
Tel: (209) 943-6165;  
Fax: (209) 943-7046

E-mail: [katalysis2@mayanet.hn](mailto:katalysis2@mayanet.hn) or  
[katalysis2@aol.com](mailto:katalysis2@aol.com)  
 Web site: [www.interaction.org/ia/mb/katalasi.html](http://www.interaction.org/ia/mb/katalasi.html)

*MiBanco: El Banco de los Microempresarios  
 Comité Técnico  
 Av. Chinchón 901,  
 5° Piso,  
 San Isidro Lima 27-PERÚ  
 Tel: (511)442-2102;  
 Fax: (511) 422-3806;  
 E-mail: [mibanco@amauta.rcp.net.pe](mailto:mibanco@amauta.rcp.net.pe)*

*MUDE (Association for Women in Development,  
 Asociación de Mujeres ed Desarrollo)  
 Executive Director, Catarina Mendoza  
 3a Calle A 1-27A, Lomas del Sur  
 Villa Nueva, GUATEMALA  
 Tel./Fax: (502) 6 311 663*

*Nicaraguan Community Development Loan Fund  
 (NDCLF)  
 c/o WCCN  
 P.O. Box 1534  
 Madison, WI 53701 - USA*

*ODEF (Organization for Women's Enterprise  
 Development, Organización de Desarrollo  
 Empresarial Femenino)  
 Executive Director; Santa de Euceda  
 Apartado Postal 357  
 San Pedro Sula, Cortéz, HONDURAS  
 Tel: (504) 52 3571;  
 Tel/Fax: (504) 52 7034*

*PROCOMES (Cooperation for Community Projects  
 in El Salvador, Corporación de Proyectos Comunales  
 de El Salvador)  
 Executive Director: Blanca Flor Bonilla  
 Ciudad Satélite, Calle Júpiter J-35  
 San Salvador, EL SALVADOR  
 Tel/Fax: (503) 274 0321*

*Seed Capital Development Fund, Ltd.  
 Executive Director, Gil Crawford  
 1828 L. Street, NW Suite 1030  
 Washington, DC 20036  
 Tel: (202) 785-8300;  
 Fax: (202)785-0799;  
 E-mail: [GHCrawford@aol.com](mailto:GHCrawford@aol.com)*

**Microcredit-related organizations assisting Latin America and the Caribbean (cont.)**  
**COPEME-member NGO's**

*A.B. PRISMA (Asociación Benéfica de Proyectos en Informática, Salud, Medicina y Agricultura)*

Carlos Gonzales 251  
 Urb Maranga  
 Lima 32, PERÚ  
 Tel: 51 1 4640130 or 464089;  
 Fax: 51 1 4529758;  
 E-mail: [postmaster@prisma.org.pe](mailto:postmaster@prisma.org.pe)

*ANC (Asociación Nacional de Centros de Investigación y Promoción del Desarrollo)*

Pablo Burmúdez 234,  
 Lima 11, PERÚ  
 Tel: 51 1 4333477;  
 Fax: 51 1 4333470;  
 E-mail: [credito@anc.org.pe](mailto:credito@anc.org.pe)

*APDES (Asociación de Paromoción y Desarrollo Social)*

Jr. Issac Newton 7123  
 Urb. Sol de Oro.  
 Lima 39, PERÚ  
 Tel/Fax: 51 1 5335046

*ARARIWA (Asociación para la promoción técnico-cultural andina)*

Av Los Incas 1606 Wanchaq  
 Cusco, PERÚ  
 Tel: 51 84 236887;  
 Fax: 51 84 236889

*CARE-PERU (Cooperación Americana de Remisas al Exterior)*

Av Gral Santa Cruz 659  
 Lima 11, PERÚ  
 Tel: 51 1 4334781;  
 Fax: 51 1 4334753;  
 E-mail: [login@carepe.org.pe](mailto:login@carepe.org.pe)

*CEAS (Comisión Episcopal de Acción Social)*

Av. Salaverry 1945  
 Lima 14, PERÚ  
 Tel: 51 1 4710790;  
 Fax: 51 1 4717336

*CEDEPAS (Centro Ecuménico de Promoción y Acción Social)*

Jr. Ayacucho 690  
 Huancayo, PERÚ  
 Tel/Fax: 51 64 222536

*CENCA Instituto de Desarrollo Urbano-CENCA*

Coronel Zegarra 426  
 Lima 11, PERÚ  
 Tel: 51 1 4215866;  
 Fax: 51 1 4712034;

E-mail: [postmaster@cenca.org.pe](mailto:postmaster@cenca.org.pe)

*CEPES (Centro Peruano de Estudios Sociales)*

Av. Salaverry 818  
 Lima 11 PERÚ  
 Tel: 51 1 43366100  
 Fax: 51 1 43317444  
 E-mail: [cepes@cepes.org.pe](mailto:cepes@cepes.org.pe)

*CRS-PROMUC (Promoción de la Mujer y de la Comunidad)*

Vasco Nuñez de Balboa 610  
 Lima 18, PERÚ  
 Tel: 51 1 4443733 or 44460127  
 Fax: 51 1 4444578  
 E-mail: [postmaster@crspe.org.pe](mailto:postmaster@crspe.org.pe)

*EDAPROSPO (Equipo de Educación y Autogestión Social)*

Jr. Octavio Bernal 598  
 Lima 14, PERÚ  
 Tel: 51 1 4634173; Fax: 51 1 4630776;

*FODIVA (Formento de la Vida)*

Av. Javier Prado Oeste 109  
 Lima 17, PERÚ  
 Tel: 51 1 4614856;  
 Fax: 51 1 4610106;  
 E-mail: [postmaster@fodiva.org.pe](mailto:postmaster@fodiva.org.pe)

*FONDESURCO (Fondo de Desarrollo Regional)*

Av. República Argentina 326  
 Urb. La Negrita  
 Arequipa, PERÚ  
 Tel/Fax: 54 283715;  
 E-mail: [postmaster@colca.org.pe](mailto:postmaster@colca.org.pe)

*IDEAS (Centro de Investigación, Desarrollo, Educación, Asesoría y Servicios)*

Av. Arenales 651  
 Lima, PERÚ  
 E-mail: [postmaster@ideas.org.pe](mailto:postmaster@ideas.org.pe)

*MUJER Y SOCIEDAD (Centro de Comunicación e Investigación Aplicada)*

Montero Rosas 1328  
 Santa Beatriz  
 Lima 1, PERÚ  
 Tel/Fax: 51 1 4729005

*SEA (Servicios Educativos El Agustino)*

Renán Olivera 249  
 Lima 10, PERÚ  
 Tel/Fax: 51 1 3270784

***Microcredit-related organizations assisting Indonesia, India, Pacific, Asia  
and/or Southeast Asia***

*ASA (Association for Social Advancement)*  
23/3 Block-B  
Khilji Road  
Mohammedpur,  
Dhaka-1207  
G.P.O. Box No. 2507, BANGLADESH  
Tel: 9116375., 819828, 810934, 810935;  
Fax: 880-2-811175;  
E-mail: [asa@drik.bgd.toolnet.org](mailto:asa@drik.bgd.toolnet.org)

*BRAC's Rural Development Program*  
BRAC Centre  
356 Mohakhali  
Dhaka 1212, BANGLADESH  
Tel: 884180-7 or 884051-4;  
Fax: 880-2-883-542 or 883-614;  
E-mail: [general@brac.bdmail.net](mailto:general@brac.bdmail.net)

*BURO Tangail*  
M. Mosharrof Hossain, Director  
18/KA Pisciculture Housing Society  
Ring Road  
Shymoli,  
Dhaka 1207, BANGLADESH  
Tel: 880-2-815815 or 880-2-9125492;  
Fax: 880-2-9112340

*Cambodia Canada Development Program (CCDP)*  
180 Ste-Catherine Est  
Bureau 620  
Montréal, CANADA H2X 1K9  
Tel: (514)877-4222;  
Fax: (514) 877-4223;  
E-mail: [ccdpmtl@web.net](mailto:ccdpmtl@web.net)

*Cambodia Canada Development Program (CCDP)*  
P.O. Box 635  
#198 Street 370  
Boeung Keng Kang,  
Phnom Penh, CAMBODIA  
Tel/Fax: (855)23 427 338;  
E-mail: [ccdp-pnh@pactok.peg.apc.org](mailto:ccdp-pnh@pactok.peg.apc.org)

*CASHPOR, Inc. (Network for Credit and Savings for  
the Hardcore Poor in Asia-Pacific)*  
Professor David Gibbons, Executive Trustee  
6 Lorong 4/1, Taman Permata, (Lobok) 70200  
Seremban N.S., Malaysia  
Tel: (606)7645116;  
Fax: (606) 7642307  
E-mail: [gibbons@pc.jaring.my](mailto:gibbons@pc.jaring.my)

*FISHCRESS Network (Fisheries Credit Support Services)*  
Bank Indonesia Complex  
Credit Department  
J1 M.H. Thamrin No.2  
Jakarta 10110, INDONESIA  
Tel: (62-21) 2311694 or 3818524;  
Fax: 380-20-23

*Grameen Foundation*  
Alex Counts, Executive Director  
236 Massachusetts Ave. N.E.  
Washington, DC 20002  
Fax: (202) 543-7512

*GRAMEEN Trust Bank*  
Grameen Bank Bhaban  
Mipur-2  
Dhaka 1216, BANGLADESH  
Tel: 80-63-19 (office); 81-79-40 (Residence)  
Tel/Fax: 880-2-80-63-19;  
Internet: [Grameen@driktap.tool.nl](mailto:Grameen@driktap.tool.nl)

*KASHF Foundation*  
First Floor Ahmed Arcade  
161-Ferozpur Road  
Lahore, PAKISTAN  
Tel: 92 42 7562810 11  
Fax: 92 42 7570256  
E-mail: [credit@kashff.1hr.erum.com.pk](mailto:credit@kashff.1hr.erum.com.pk)

*LEAD (League for Education and Development)*  
40 First Street,  
Rayar Thoppu  
Srirampuram, Srirangam, Trichirapalli  
Tamil Nadu, INDIA 620006  
Tel: 0091 431 432803;  
Fax: 0091 431 432803

*MICROCREDIT PROJECT - INDONESIA*  
Credit Department, BANK INDONESIA  
Jl. Kebon Sirih 78,  
Jakarta, INDONESIA  
Tel: +62 (21) 381-8592 or 381-8595;  
Fax: +62 (21) 381-8591

*NEICORD (North East India Committee on Relief and  
Development)*  
Post Box 92  
GPO Shillong  
793 001  
Meghalaya, INDIA  
Tel: 227317;  
Fax: (91) 0364-225585

***Microcredit-related organizations assisting strictly Indonesia, India, Pacific, Asia and/or  
Southeast Asia (cont.)***

P4K Pusat  
 J1 Harsono RM No. 3 Ragunan  
 Jakarta 12550, INDONESIA Tel/Fax: 62 21 7805209  
 E-mail: [osh187@centrin.net.id](mailto:osh187@centrin.net.id)

*PHBK (Project Linking Banks and Self-Help Groups in Indonesia)*

Bank Indonesia - UK/PHBK  
 Jl. M.H. Thamrin No. 2  
 Jakarta 10110, Indonesia  
 Tel: (021) 3817987-91  
 Fax: (021) 2310722

*PRISM BANGLADESH (Projects in Agriculture, Rural Industry, Science & Medicine) (NGO)*

House #49, Road #4A,  
 Dhanmondi R/A  
 Dhaka 1205, BANGLADESH

*PROSHIKA*

I/1-Ga, Section 2, Mirpur  
 Dhaka 1216, BANGLADESH  
 Tel: 805812, 803398, 806015, 805945  
 Fax: 880-2-805811  
 E-mail: [info@proshika.agni.com](mailto:info@proshika.agni.com)

*SEWA Bank (Self Employed Women's Association)*

Shri Mahila Sewa Sahkari Bank Ltd.  
 Sakar II,  
 OPP Town Hall  
 Ellisbridge, Ahmedabad 380-006

*TLSS (Empowerment of Women Through Poverty Allieivation, Thengamara Mohila Subuj Shangha*

Rtn. Professor Hosne Ara Begum, Director  
 P.O. Box 66  
 Bogra 5800  
 BANGLADESH  
 Tel: 051-5719; Fax: 880-2-838194

*Working Women's Forum, India (WWF)*

55 Bhimansena Garden Road  
 Lylanpore,  
 Ladras - 600 004, INDIA  
 Tel: 91-44-4992853 or 4993937;  
 Fax: 91-44-4992853

*Enterprise Mentors International*

510 Maryville College Drive, Suite 210  
 St. Louis, MO 63141  
 Tel: (314)453-0006  
 Fax: (314)453-0959

*(PEDF) Philippines Enterprise Development Foundation*

3<sup>rd</sup> Floor, Consuelo Bldg.  
 1365 E. Rodriguez Sr. Street  
 Quezon City, Metro Manila  
 Tel: 722-8981

### *Global Microcredit organizations*

*Action for Enterprise*

1600 Wilson Blvd., Suite 500  
 Arlington, VA 2220  
 Tel: 703-243-9172;  
 Fax: 703-243-1865  
 E-mail: [75221.3506@compuserve.com](mailto:75221.3506@compuserve.com)

*CALMEADOW*

365 Bay St. #600  
 Toronto, Ontario, CANADA L5H 2V1  
 Tel: 416-362-9670;  
 Fax: 416-362-0769

E-mail: [calmead@inforamp.net](mailto:calmead@inforamp.net)

*CARE's Small Economic Activity Development for Women Program (SEAD)*

151 Ellis Street NE  
Atlanta, GA 30303-2439  
Tel: 404-681-2552;  
Fax: 404-577-5761

E-mail: [media@care.org](mailto:media@care.org)

Web site: [www.care.org](http://www.care.org)

*Catholic Relief Services headquarters*

209 West Fayette Street  
Baltimore, MD 21201-3443 - USA  
Tel: 1-800- 410-625-2220;  
Fax: 410-685-1635

Web site: [www.catholicrelief-crs.org](http://www.catholicrelief-crs.org)

*Catholic Relief Services*

*Small Enterprise Development Company Limited*

270/1 Krungsrinok Road  
P.O. Box 29,  
Luang

Surin 32000, Thailand

Tel: 66-44-512846

Fax: 66-44-516064

E-mail: [yboontid@mozart.inet.co.th](mailto:yboontid@mozart.inet.co.th)

*Credit with Education*

*c/o Freedom From Hunger*

1644 DaVinci Court

Davis, CA 95617

Tel: (916) 758-6200

Fax: (916) 758-6241

E-mail: [info@freefromhunger.org](mailto:info@freefromhunger.org)

*Développement International Desjardins (DID)*

150, Avenue des Commandeurs,

Lévis (QUÉBEC) G6V 6P8

Tel: (418)835-2400

Fax: (418) 833-0742

E-mail: [info@did.qc.ca](mailto:info@did.qc.ca)

*Trickle-Up Program (NGO)*

54 Riverside Drive

New York, NY 10024

Tel: (212) 362-7958;

Fax: (212) 877-7464;

E-mail: [73444.557@compuserave.com](mailto:73444.557@compuserave.com);

Internet: [www.vita.org/trickle](http://www.vita.org/trickle)

*FINCA International, Inc.*

1101 14<sup>th</sup> Street,  
Washington, DC 20005;

Tel: 202-682-1510;

Fax: 202-682-1535;

E-mail: [76215.1036@compuserve.com](mailto:76215.1036@compuserve.com)

website: [www.VillageBanking.org](http://www.VillageBanking.org)

*IFAD (International Fund for Agricultural Development)*

Via de Serafico, 107

00142 Rome, ITALY

Tel: +39-6-54591;

Fax: +39-6-5043463

E-mail: [ifad@ifad.org](mailto:ifad@ifad.org)

*Latter-day Saint Charities*

50 East North Temple St.

Salt Lake City, UT 84150

Tel: (801)240-3026

Fax:

*Opportunity International*

360 West Butterfield Road

Elmhurst, IL 60522, USA

Tel: (630)279-9300

Fax: (630)279-3107

Web site: [www.opportunity.org/au](http://www.opportunity.org/au)

*OXFAM America*

26 West Street

Boston, MA 02111-1206

Tel: 617-482-1211

Web site: [www.oxfamamerica.org](http://www.oxfamamerica.org)

*SIDI (Société d'Investissement et de Développement International)*

47, quai des Grands-Augustins - 75006 PARIS - FRANCE

Tel: (33) 01-40-46-77-00

Fax: (33) 01-46-34-81-18

### **Global Microcredit organizations (cont.)**

*United Nations Development Program (UNDP)  
Private Sector Development Program*

One United Nations Plaza  
UH-8th Floor

New York, NY 10017  
Tel: (212) 906-5315;  
Fax: (212) 906-3655;  
E-mail: [hq@unpd.org](mailto:hq@unpd.org)  
Web site : [www.undp.org/](http://www.undp.org/)

*United Nations Department for Development Support  
Management and Services*  
One UN Plaza, DC1-1220  
New York, NY 10017 - USA

*UNICEF (United Nations Children's Fund)  
Division of Communication*  
3 UN Plaza, H-6F  
New York, NY 10017 - USA  
Fax: 212-326-7059  
E-mail: [pubdoc@unicef.org](mailto:pubdoc@unicef.org)  
Web site: [www.unicef.org](http://www.unicef.org)

*Women's World Banking*  
8 West 40<sup>th</sup> Street  
New York, NY 10018  
Tel: (212) 768-8513;  
Fax: (212) 768-8519;  
E-mail: [wwb@igc.apc.org](mailto:wwb@igc.apc.org)

*Women's Opportunity Fund*  
P.O. Box 3695,  
Oak Brook, IL, 60522, USA  
Tel: (708) 279-9300;  
Fax: (708) 279-3107

*World Bank*  
Homepage: [www.worldbank.org](http://www.worldbank.org)

*Sustainable Banking with the Poor*  
Tel:  
Fax: (202)522-1662

## *Additional Microcredit Networks*

### *Additional Microcredit Networks–Global*

#### *International Coalition of Women and Credit*

West 40<sup>th</sup> Street  
10<sup>th</sup> Floor  
New York, NY 10018 - USA  
Tel: 1-212-768-8513  
Fax: 1-212-768-8519

#### *Micro-finance Network*

733 15<sup>th</sup> Street, Suite 700,  
Washington, CD 20005 - USA  
Tel: 1-202-393-113;  
Fax: 1-202-93-115

#### *SEEP Network*

*c/o PACT,*  
777 United Nations Plaza, 6<sup>th</sup> Floor,  
New York, NY 10017 - USA  
Tel: 1-212-808-0084;  
Fax: 1-212-692-9748;  
E-mail: [seepny@undp.org](mailto:seepny@undp.org)

#### *World Organization of Credit Unions (WOCCU)*

805 15<sup>th</sup> Street, NW Suite 300,  
Washington, DC 20005 - USA  
Tel: 1-202-879-0224;  
Fax: 1-202-682-9054

#### *Agricultural Cooperative Development International (ACDI)*

50 F Street, N.W., Suite 900,  
Washington, DC 20001 - USA  
Tel: 1-202-879-0224;  
Fax: 1-202-626-8726

### *Additional Asian Microcredit Networks*

#### *Banking with the Poor*

232 Adelaide Street  
P.O. Box 10445  
Brisbane QLD 4000 - AUSTRALIA  
Tel: 61 7 3236-4633  
Fax: 61 7 3236-4696  
E-mail: [fdc@ozemail.com.au](mailto:fdc@ozemail.com.au)

### *Additional African Microcredit Networks*

#### *Reseau d'Initiatives et du Credit Autogerees in Afrique (REICA)*

*c/o FONG, SBP,*  
Thies - SENEGAL  
Tel: 221 51-12-37;  
Fax: 221 51-20-59

#### *PAMF*

B.P. 1236,  
Cotonou, Benin  
Tel: 229 33-06-39  
Fax: 229 33-07-33

#### *PRAOC*

01 BP 529,  
Ouagadougou - Burkina Faso  
Tel: 226-31-2983

#### *Faulu Africa*

P.O. Box 60240,  
Nairobi, KENYA  
Tel: 254 2 569-328;  
Fax: 254 2 567-504;  
E-mail: [faulu@maf.org](mailto:faulu@maf.org)