Panos Media Briefing No. 21/ January 1997

# THE FUTURE FOR MICROFINANCE: Banking the unbankable

## Table of Contents

**Contacts**

**References**

---

## Key Facts

- Fewer than 2 per cent of poor people have access to financial services (credit or savings) from sources other than money lenders.
- Under 10 million of the 500 million people who run micro and small enterprises have access to financial support for their businesses.
- In Africa, women account for more than 60 per cent of the rural labour force and contribute up to 80 per cent of food production, yet receive less than 10 per cent of credit provided to farmers.
- The World Bank estimates at there are now over 7000 microfinance institutions, serving some 16 million poor people in developing countries. The total cash turnover of MFIs world-wide is estimated at US$2.5 billion and the potential for new growth is outstanding.
- The Microcredit Summit estimates that US$21.6 billion is needed to provide microfinance to 100 million of the world's poorest families. The Summit planners say it should be possible to raise US$2 billion from borrowers' savings alone. The final figure may be even higher.
- Savings are important both as a vital safety net for the poor and as a source of funding that does not rely on external sources. Many strong MFIs, notably in Africa, recycle the savings of needy clients as a principal source of loan funds for their customers.
- The widely-imitated Grameen Bank in Banladesh aims to provide credit to those in extreme poverty. Some 94 per cent of those who meet the bank's criteria and take up loans are women. Grameen borrowers keep up repayments at a rate of around 98 per cent. The Bank lends US$30 million a month to 1.8 million needy borrowers.
- Though women appear to benefit most, studies indicate that many loans awarded to and paid back by women are in fact used by men.
- There is concern that official assistance will be diverted from vital primary care aid programmes such as health, water projects and education into MFIs, owing to their popularity among donors.

---

## Introduction

Less than 2 per cent of poor people have access to financial services from sources other than money lenders, while fewer than 10 million of the 500 million people currently running micro and small enterprises have access to loan or savings facilities. Banks have tended to assume that the needy will not keep up repayments, or that the costs of servicing transactions on so small a scale must make grassroots lending unprofitable. Over the past two decades, however, the success of microfinance institutions (MFIs) such as Grameen Bank in Bangladesh has proved the poor are worth investing in. Grameen lends US$30 million each month to 1.8 million poor people, 94 per cent of them women. The repayment rate tops 98 per cent.

Today the World Bank calculates that there are over 7000 'microcredit' programmes serving some 16 million people in developing countries. The current estimated total portfolio of MFIs is US$2.5 billion and there is massive potential for further growth. The goal of the Microcredit Summit, to be held in Washington from 2-4 February 1997, is nothing less than to 'launch a global movement to reach 100 million of the world's poorest families'.

Commercial banks have begun to show growing interest in investing in MFIs. Yet some banks, through caution or through lack of familiarity with this market growth area, appear to be holding back from responding to the current demand. In response, several non-governmental organisations (NGOs) are themselves setting up banks.

The MFIs have proved that the poor can be bankable. The MFI pathway may grow to be an encouraging and fruitful avenue for development. Yet there are doubts. Some of the larger MFIs (including Grameen and BRAC in Bangladesh) no longer appear to regard the poorest families as clients of premier importance but are focusing their activities instead on the 'middle and upper' poor. It is thought that only 20 per cent of Grameen's members now qualify to belong in the Bank's 'landless' category. The Microcredit Summit and the World Bank assume that the poorest are being targeted through MFIs. But is this assumption justified? There is a growing debate about who the programmes actually benefit. Do they reach the poorest and do women benefit as much as the statistics imply? How should these credit services be run and with what 'values' in mind? Are demands by donors for financial sustainability eroding their ability to help the poorest?

The Microcredit Summit will focus on how to encourage national banking systems to support MFIs so that profits do not leave the country, and on how to deploy borrowers' savings as a major source of inward investment. If commercial banks, including international banks, become more heavily involved, will it simply mean more profits to enrich the already affluent? The microfinance bandwagon is attractive to donors as a populist way to dispense aid donations. It accords with a free market economic philosophy of financial accountability, austerity and sustainability. But could this 'microfinance evangelism' prompt floods of finance that MFIs are not ready to put to effective use, or threaten aid spending in other areas?

---

## 1 BIG BUCKS AND BIG PLAYERS

Financiers have always tended to assume that the poor cannot meet loan repayments and that in any case the high costs to banks of small-scale transactions make them unprofitable. Fewer than 10 million of the 500 million people who run micro and small enterprises have access to financial help for their business [1]. But the worldwide success of microfinance institutions (MFIs) during the past two decades has proved that poor borrowers are worth investing in.

### The need

The Microcredit Summit estimates that US$21.6 billion will be needed to benefit 100 million of the world's poorest families. The total includes:

- grants and concessional loans: US$11.6 billion
- commercial credit markets: US$8 billion
- savings of borrowers: US$2 billion.

---

### What is microfinance?

Microcredit is the provision of very small loans to poor individuals who are outside the conventional banking system. These loans are used for income generation and/or emergency needs. Providing access to such loans prevents people from having to pay extortionate payments to money lenders and thereby alleviates poverty and prompts income-generation and broad-based economic growth.

As well as microcredit, institutions generally offer other financial services such as savings and insurance. It is therefore more appropriate to use the term microfinance institutions (MFIs).

An average micro loan can be anything from a few dollars to several hundred dollars, and typical uses of initial loans are for buying livestock, rice to husk, ingredients for manufacture of foodstuffs such as breads or sweets, products for agriculture such as seeds, or consumption loans to bridge people through the hungry season until their crops are harvested. If repayments are successfully met larger loans can then be taken to buy assets such as a rickshaw, a street-side oven, or housing.

---

Speaking in February 1994 at the meeting of the International Steering Committee for the Advancement of Rural Women, Muhammad Yunus (founder of the Grameen Bank in Bangladesh) questioned why microfinance was not getting more support from donors. "The strange thing" (he observed) "is that while Grameen is admired for pioneering a method for the poor to get a chance to move out of poverty, international development finance institutions find it impossible, or extremely difficult, to support the Grameen replication programmes around the world." [2]

Three years on, virtually all multilateral and bilateral donors are now involved in supporting microfinance. Britain's Overseas Development Administration (ODA) is giving US$50 million in support of MFIs worldwide, notably in Bangladesh, Kenya, Tanzania and Zimbabwe. ODA is also involved in various international initiatives to boost support for microfinance.

In the first World Bank project of its kind, the Bangladesh Country Department has approved US$105 million for poverty alleviation and a microfinance programme. Private and independent backers are entering the picture, too. The Microcredit Summit to be held in Washington DC in February 1997 is sponsored by Mastercard International, Citicorp Foundation, The Monsanto Fund and Charles Stewart Mott Foundation. It aims to find ways to attract US$21 billion of new loan capital for MFIs. While some experts question whether this target can be achieved, others (not least Ismail Serageldin, Vice-President of the World Bank) insist that the problem is not of raising finance but of capacity to absorb it.

**Too much too fast?**

Economist David Wright of ODA agrees. "Too much money from donors given on too easy terms could end up weakening the MFIs, which will then have less incentive to seek to attract funds from local commercial sources," he says. "I am certain we will see a number of microfinance disasters."

The over-funding menace may, however, be exaggerated in view of the fact that only three major bilateral donors have joined the Summit's Council of donors. Among strings attached to available international funds for new MFI activities, such as that set up by the World Bank under the Consultative Group to Assist the Poorest (CGAP), there are strict eligibility criteria that require beneficiary MFIs to demonstrate self-suffiency over time. These checks tend to put a brake on over-funding.

## World Bank funding

The World Bank set up the CGAP in June 1995 as "a multi-donor effort to systematically increase resources in microfinance to broaden and deepen the success of pioneer institutions in this field." The total portfolio of MFIs world-wide today is US$2.5 billion and it is clear to all that there is massive potential for growth in the microfinance sector. "CGAP can play a seminal role in leveraging existing resources and directing more public and private resources to help bridge the gap," says the Bank. [1]

The Group now has 23 member donors which are said to be jointly allocating US$200 million to the CGAP portfolio. It should, however, be borne in mind that only US$30 million is 'new money' forming CGAP's three-year Core Fund. Most donors were not willing to donate to the Core Fund, agreeing instead only to notify CGAP of 'parallel funding', that is to say money they allocate to microfinance as separate bilateral donors.

Some feel this reservation shows lack of commitment by donors and argue that more resources are needed. Others however, insist that the US$170 million donated by bilateral donors does not reflect the true picture, as donors are earmarking large amounts of money for microfinance of which CGAP is not currently aware. The role of CGAP may well become one of establishing a professional discipline among the donor community and paving the way for commercial practice, than of being a major funder.

In order to be eligible for CGAP funds, MFIs have to demonstrate that they are reaching large numbers of the poor, that women make up at least 50 per cent of their client base, and that they are operating on a financially sustainable basis or are moving in that general direction.

A recent USAID study of 11 leading micro-enterprise credit unions or finance institutions shows that there is a growing trend toward sustainability. Strong microcredit institutions have shown that after five to seven years of operation they can achieve size and efficiency levels that enable them to cover their operating and financial costs, without requiring additional subsidies and programmes. [3]

But this is not always the case. For instance CASHPOR, a network of MFIs operating in Asia, maintains that its outlets are in a 'Catch-22' situation. Despite serving between them over 100,000 poor households throughout Asia, partners in CASHPOR have been refused CGAP funds because they are not deemed to be financially sustainable. David Gibbons, an Executive Trustee of CASHPOR, insists that lack of funds, not lack of commitment, is what keeps projects short of financial sustainability.

Says Gibbons: "It seems that CGAP is not aware that the main reason no CASHPOR projects have yet reached organisational self-sufficiency is precisely because they have not been able to get the funds required to finance expansion to the scale required to cover costs from income."

Although CGAP had received around 60 applications by June 1996, only three had been approved and most applicants did not meet the eligibility criteria, according to an InterPress Service feature. The bulk of the funding had gone on training, networking, policy fora, and standards development. If this is the case, is CGAP expecting too much of MFIs and setting sustainability criteria too high over too short a period, while losing sight of the main goal of the MFI effort - to alleviate poverty?

---

**Courage and redemption in the face of poverty**

Francisca Rojas was orphaned at the age of nine and lived by herself in a ditch beside the road until a women found her, took her home, and put her to work washing and ironing. Francisca ran away when she was 17 and had her first child when she was 18.

"I went to my first bank meeting and was afraid I could not take and repay a loan," said Francisca, a borrower of a FINCA village banking program in El Savlador. "But the field worker who was there believed I could do it, and I was so desperate that I tried it."

With her first loan, Francisca bought spices, noodles, and little ceramic pieces which she sold at the market on a tray. After three loans of $US50 each, she had saved $US45. "I never saved before. I used to earn $US17.50 a week. Now I earn from $US35 to $US53 each week. I can spend almost twice as much for food, live in a much nicer home, buy medicines, and save money. I feel safer now. I sleep calmly at night because I am not so worried about how to pay back a money lender. When you have been as poor as I have been there is a lot of shame... I never had any friends. Now each week I come to our bank meeting. They are glad to see me. Now I have friends. This is the most important thing," she concluded. [4]

---

CGAP has also been criticised in a report by the Washington-based Institute for Policy Studies (IPS) which states that CGAP mirrors the macro-level measures imposed by the World Bank in pursuance of structural adjustment, privatisation, deregulation and legal reform policies, all of which benefit commercial interests, not the borrower. The IPS report also asserts that best practices being promoted under CGAP are market-friendly, not women-friendly. [5]

Mohini Malhotra, Operations Manager of CGAP, sees such criticisms as misplaced, insisting that in its recommendations CGAP does not respond to World Bank policy trends or market pressures but simply follows the practical advice of representatives of the Grameen Bank and other leading microfinance institutions who form CGAP's Policy Advisory Group.

---

### When NGOs become banks: An example from Latin American

In 1995, ACCION International - a network of MFIs in Latin American and the US disbursed US$327 million to some 270,000 clients in Latin America in loans averaging under US$600 and starting as low as US$65.

Supported by letters of credit issued by an ACCION International guarantee fund, called the Bridge Fund, the NGO affiliates obtained loans on a commercial basis from local banks, on-lending these funds to micro-enterprise clients. As the ACCION affiliates demonstrated their financial dependability, the amount the local banks were willing to lend against the ACCION International letter of credit increased. By 1995, the Bridge Fund had enabled an eight fold use of every dollar invested. Overall the late payment rate (over 30 days) was estimated at a mere 3 per cent, and the repayment rate above 98 per cent. Loan disbursement has grown at an annual rate of 67 per cent since 1989.

When the local banking system couldn't provide enough money anymore, some of the NGOs turned themselves into banks under the supervision of the Superintendency of Banks. BancoSol (formerly PRODEM) was formed in Bolivia and FinanSol in Colombia. Michael Chu, President of ACCION, explains: "The power of directly accessing the financial markets can be gauged by the fact that in 1996, after four years of operation, BancoSol had 2 per cent of Bolivia's banking assets but 40 per cent of the clients." [8]

---

### Dealing the big banks in

For many who hope to see MFIs prosper and multiply, the challenge of the moment is to win the backing of commercial banks. It is time (they say) the banks realised that their old view of the poor as uncreditworthy is not borne out by the evidence. If they provide MFIs with funds to lend on to borrowers, then MFIs can act as intermediaries between bank and borrower by disbursing funds, managing late payments and defaults, and giving advice and training. This way, the commercial banks can expect to have to bear few of the transaction costs, while making ample profits.

Bilateral development agencies in the UK and US have held Round Table meetings with potential investors to convince commercial banks of the potential benefits of microfinance, and CGAP has done likewise. The International Finance Corporation (a member of the World Bank Group and leading source of equity and loan financing for private sector projects in developing countries) is currently establishing a rating agency for MFIs to provide information for would-be commercial investors. [6]

Commercial banks in Chile, Mexico, Indonesia, the UK and South Africa have already started investing heavily in microfinance networks. In South Africa, funds for a micro-lender called The Start-Up Fund have been provided by De Beers and other major corporations, along with Anglo-American Southern Life, the Development Bank of Southern Africa and the Independent Development Trust. [7]

The Start-Up Fund has lent more than R3.5 million (US$0.77m) to the informal sector during the past three years. According to Tony Davenport, Head of the Start-Up Fund: "The doors of the capital markets are firmly closed against the majority of South Africa's population. We need a strategic intervention on the part of government and big business to enable people to climb out of unemployment and poverty."

A Kenyan MFI, K-REP, is also intent on converting into a bank. This move involves K-REP in raising the capital and guaranteeing the security of money during and after collection. "K-REP's current methodology is to collect money along the roadside and under trees, much to the dismay of the Bank Supervisor. K-REP is now considering the use of mobile banks which, though costly, comply with regulations and still allow the institution to go where the clients are." [9]

In April 1996 the UN Conference on Trade and Development (UNCTAD) announced a new private investment initiative the Banque Internationale a Luxembourg. It has created a private fund to invest in MFIs in developing countries. The fund has invested an initial float of US$10 million in a dozen micro-banks in Bolivia, Colombia, Ecuador and Peru. Over the next five years it plans to invest US$100 million in around 100 micro-banks in Africa, Asia, other parts of Latin America and perhaps in some countries of Eastern Europe. [10]

Despite these fanfares, some observers remain sceptical as to whether cash-laden commercial backers will beat a path to the door of MFIs in future. Some banks feel concern at interest rate ceilings and anti-usury laws that operate in many countries. In general, commercial banks are wary of this emerging marketplace and feel they lack inside knowledge.

## Growth in ethical banking

The answer to this reluctance to invest may lie in mobilising the support of individual investors in the global North. 'Ethical investment' refers to pension schemes or trust fund savings packages marketed by institutions that make a selling-point of investing their clients' funds only in companies that have proved they are not involved in projects that are environmentally or socially damaging. These schemes may provide a channel for new investment in MFIs via orthodox banks in the North.

The Triodos Bank lends only to people, projects and businesses which add real value to society and the envionment and are socially, ecologically and financially sustainable. It is working to promote positive ethical investment and has been providing credit and training in collaboration with the microfinance institution Women's World Banking since 1985. It introduced the North-South Plan in the Netherlands in 1994, through which clients invest specifically in microfinance institutions in the South. The North-South Plan was launched in the UK in October 1996 and Triodos is the first bank in Europe to launch an account dedicated to microfinance, and to support outstanding MFI institutions such as Opportunity Trust, which lend funds on to MFIs working in the South.

## Should profits go North?

Many feel that commercial finance should not be the main focus of the Microcredit Summit. Developing national banking systems and sources of finance for the poor are, they maintain, more sensible and ethical than an inequitable trading system whereby affluent Northern financiers profit from high interest paid on loans by needy people in the global South.

"There is an ethical question," admits Glen Saunders of Triodos Bank. "Ideally, savings banked in a country should be recycled in that country. Ultimately our aim would be to put ourselves out of a job, but the domestic funds are not there for MFIs to use. It's a crazy situation, so getting funds from the North is the only way out at the moment."

Some programmes, such Rotating Savings and Credit Associations (ROSCAs) or BAWPA, a Bangladeshi credit programme, do not use imported finance, but rely wholly on rotating or on-lending the savings of the membership. Others, including the Grameen Bank, used to rely on soft loans from outside donors like the International Fund for Agricultural Development but have since moved over to a national funding base. The Grameen recently sold US$163 million in bonds to six Bangladeshi commercial banks at annual interest rates of 4 to 6 per cent. This money is re-invested and interest will paid on it in turn by the borrowers. Hence it stays in the country and benefits more people.[11]

### Is this a diversion from aid for basic needs?

Aid programmes have often failed to reach the poorest 20 per cent of the world's people, as the Microcredit Summit's Draft Document admits. In the case of Bangladesh, 75 per cent of the billions of dollars of foreign aid received since independence in 1971 has (according to Grameen's Yunus) leaked back to the donor countries as payment for the services of their consultants, advisors, commodities and equipment.[2]

Many see scope for better poverty-focusing of existing aid programmes through MFI activities. Others fear that official assistance will be diverted from vital basic needs programmes, such as healthcare and education, into microfinance, owing to its current vogue among donors.

International development assistance slumped to a 20-year low in 1994 with US$56 billion (0.3 per cent of donor GNP) allocated to aid, while basic health aid decreased from 5.7 per cent in 1987-89 to 4.1 per cent in 1993. A recent ActionAid/Earthscan report warned that any further diversion of aid from poverty-focused programmes in favour of MFI activities would have grave impacts on basic well-being. Moreover, without key facilities such as clean water, transport facilties and health centres, the effectiveness of microfinance as a poverty alleviation tool would be severely curtailed.

Some analysts also highlight a danger in focusing on 'micro' finance while ignoring macroeconomic realities. Aid can and should also be used to bolster workable and business-friendly national economic policies, sound government, efficient transport and other infrastructure, effective social services and healthy financial institutions.[7]

---

## 2 DO MICROFINANCE SCHEMES WORK?

The microfinance movement has been described by Worldwatch Institute as a system that is 'rapidly evolving into a World Bank for the poor.' But it is not totally trouble-free, nor has it found a blueprint for surefire success that allows models of best practice to be replicated world-wide.

### Reasons to be hopeful

Bangladesh has witnessed the success of the widely praised Grameen Bank and other MFIs which operate along comparable lines. These include BRAC (Bangladesh Rural Advancement Committee) which had benefited 1.4 million families by the end of 1995, and the Association for Social Advancement, which now reaches around half a million borrowers.

In Indonesia, branches of Bank Rakyat Indonesia Unit Desa (BRI), a state-financed agricultural bank, serve 1.8 million borrowers and 14.3 million savers, while Badan Kredit Kecamatan (BKK), a network of 'village banks' established by regional development banks, now lends to 700,000 people.

---

**The Grameen Bank - a success story**

The Grameen Bank's aim is to provide credit to those in extreme poverty In fact, almost all (94 per cent) of those who meet the bank's criteria and take up its loans are women. Incredibly, Grameen borrowers have a repayment rate of around 98 per cent (compared to other Bangladeshi rural financial institutions rates of 30 to 65 per cent). Professor Yunus, the Bangladeshi economist who started the Grameen Bank explains that through providing small, manageable loans to the poor, a virtuous circle can be established of: "... low income, credit, investment, more income, more credit, more investment, more income..."

Its successes are attributed to giving small loans (average US$80) which are paid back in small, weekly installments, and the bank staff visit the borrowers, not the other way round, which is of great help to women. But the mechanism for ensuring high repayment is the 'solidarity group' which provides 'social collateral' through a system of peer support and pressure within a group of five to eight borrowers who mutually guarantee each others loans.

The Grameen Bank has expanded from "a handful of basket weavers in one village" in 1976 to being a 'mega' institution catering to 1.8 million poor borrowers in 22,000 out of 68,000 villages in Bangladesh, lending US$30 million every month.

Studies of the Grameen Bank have shown significant improvement in the standard of living of its borrowers, as well as empowerment. Incomes increase by 53 per cent in real terms over three years; only 48 per cent of Grameen Bank members were living in moderate or extreme poverty, compared to 75 per cent of villagers in non-Grameen villages. [12]

In spite of ethnic and cultural differences, the Grameen model has been replicated world-wide through the Grameen Trust, which funds replication projects and has funded project start-ups in 19 countries in Asia, Africa and Latin America.

---

In Sri Lanka, SANASA (Federation of Thrift and Credit Co-operative Societies) has 700,000 borrowers, while the Regional Rural Banks of India, run in part by the State, have 1.4 million. All the largest or 'mega-MFI' microfinance institutions are based in Asia. Africa's most conspicuous success story is K-REP in Kenya, a USAID sponsored Grameen 'clone' which is also in the process of turning itself into a bank. Although it currently only reaches around 15,000 borrowers it is an example of a MFI successfully serving both rural and urban populations. Out of 11 institutions examined in a USAID study, 10 were rated operationally efficient though their average loan sizes were as low as US$38. Five were fully profitable, no longer relying on loans or subsidies and generating inflation-adjusted positive returns on assets. [3]

Studies have shown that BRAC, Grameen Bank, BRI, BKK and SANASA have all demonstrated that they can improve the incomes of poor people and, for a proportion of cases, move the incomes of significant numbers of poor households above official poverty lines. [12]

In the past, interest rates for the poor have often been subsidised by aid or state programmes, because of the belief that the poor could not afford market interest rates. But such schemes have invariably failed. The fact that so many poor people pay extortionate sums to money lenders nonetheless shows that poor people need credit no matter what price they have to pay for it. MFIs therefore charge interest rates that are above conventional bank rates, to cover the higher administration costs of advancing and servicing smaller loans. [12]

**Attaining viability - is scale necessary?**

The proven financial viability and success of the best microfinance institutions raises hopes that more and more of the poor will be advantaged through the development of MFIs. The larger the MFI, the more people can be reached and the greater the potential economies of scale.

Large microfinance schemes have experienced extremely rapid growth in clientele, ranging from 25 per cent to 100 per cent per year. The BRI programme in Indonesia, despite being only a decade old, has 1.8 million borrowers and 14 million savers. [1]

The key to this growth has been the ability to maintain financial viability by controlling bad loans, holding administrative costs steady and developing a fast-growing financial resource base. [3]

The need to build capacity by expanding existing MFIs, nurturing a small number of strategic start-up operations and getting national banking sectors involved, are the agreed priorities of the Microcredit Summit. Some practitioners take the view that size is not essential for MFIs to be financial sustainable, and that when talking about the large MFIs it must be remembered that scale is relative. Compared to conventional banking systems they only reach extremely small numbers of borrowers.

**Last in the queue?**

"The logic of viability implies that the most successful organisations become banks. This is exactly the goal of some organisations, notably in Latin America. In this respect, don't they eventually run the risk of operating as a traditional bank? By seeking viability don't they run the risk of losing their target populations? It is often said that making credit available to poor people is expensive ... In this respect, organisations that target the poorest run the risk of drifting away from their original target, if they gradually increase the average amount of their credit to strengthen their financial viability." From an 'Evaluation of credit and savings projects co-financed by the European Commission with NGOs', November 1994

Many analysts point out that the 'mega-MFIs' started off modestly, targeting a particular sector with simple credit schemes and diversifying only after they proved successful. Although they see the Microcredit Summit as a timely bid to prompt renewed interest in providing finance to the world's poorest, they warn against hastily creating big institutions that are not anchored in authentic support or demand at the grassroots. There is also evidence that in concentrating on financial sustainability, large MFIs may actually be moving away from reaching the Summit goal of reaching 'the poorest'. [12]

The Policy Advisory Group to the Summit defines 'the poor' as those people living below the poverty line established by each country, and 'the poorest' as those people in the lower 50 per cent of that group. The paradox of welfare versus sustainability is a difficulty that the Summit Draft Document does not appear to have addressed. To claim that the big, high-performance MFIs benefit 'the poorest' is misleading. So who are the real beneficiaries? Only 20 per cent of Grameen's members now fit in their target 'landless' category, in a country where the vast majority of the poor are landless. BancoSol in Bolivia is also tending to exclude the poorest, while another State-run programme in Bangladesh, TRDEP, although classifying 79 per cent of its borrowers in the 'poor' category, methodically excludes the very poor from its clientele.

Some observers claim that such selection is unacceptable and that the poor are once again being marginalised by a development programme that claimed to help them. However, others assert that as long as the poor (even if not the poorest) gain some benefit, progress is being made.

Microfinance may, however, actively disadvantage the poorest if it leads to saturation in credit-financed, self-employed market sectors such as street transport. If they do not perceive income-generating credit initiatives as a solution to their livelihood problems, or if they are excluded from them for being too poor (and therefore too much of a risk), the poorest will gain nothing. Those with significant disabilities, the old or infirm are also hard to reach and are not sought after by MFIs. Even BRAC's Income Generation for Vulnerable Group

Development programme, a scheme cbsely targeting the poorest, has a physical fitness criterion.

**Welfare or financial sustainability?**

There are increasing pressures from donors to make MFIs financially sustainable (or self-sufficient over time) but this may not be the best way to reach the poorest or to run programmes. It is argued that the danger of pushing sustainability is that it forces MFIs to abandon helping those in crisis or high-risk situations such as repatriated people, displaced persons, or those needing mid-term financing.

The classic mission of development NGOs is to tackle difficult situations that nobody else is interested in. Will undue emphasis on financial sustainability stop MFIs from dealing with broader welfare needs?

NGOs that are less concerned about covering costs use credit as part of an integrated development programme to cope with disaster relief or urgent welfare problems. For example, a project in Zimbabwe co-financed by the EC aims to bring war veterans back into the conventional banking system through credit distribution. The project brief acknowledges that it will never be financially self-sufficient, but it can aim to make the groups and the individuals it supports independent of further aid. To do this it uses a range of instruments, included credit.[13]

Similarly, ActionAid in Gambia has decided against acting as a financial intermediary in its own right but has instead encouraged local groups to extend and refine traditional methods of making financial provision available to community members on a rotating basis. The results demonstrate more than ample confidence and ability and others could learn much from these experiences.[14]

In the debate over the proper balance between welfare and financial sustainability, the position of women holds pivotal relevance. Some commentators feel that in order truly to benefit women in the poorest social groups, financial provision targeted on them should also include social endowments such as literacy programmes, training in basic business skills and steps to empower them to join forces so as to break out of their isolation and lobby on their own behalf (see section 3).

**Savings to save the day**

As poverty does not hinge only on material needs alone but is also about special vulnerability to crises and everyday difficulties, many observers highlight the fact that microfinance needs to be 'protectional' as well as 'promotional'. [12]

Some MFIs therefore provide a 'menu' of services for different needs, many of them unrelated to self-employment or business. The poor often need consumption loans to assist them in coping with immediate expenses such as hospital fees, seasonal variations in income or food supply, household repairs, or to fulfil social obligations such as weddings.

Savings are therefore understood to be a necessary self-imposed 'insurance policy' for the poor. Research by SANASA suggests that the highest priority of poorer households for financial services is for quick withdrawal saving programmes. This is a commonsense outlook, as everyone needs to save, but not everyone needs a loan all of the time.

Although the mega-MFIs do offers savings schemes, participation in the savings scheme for a certain time is usually a pre-condition of members' access to loans. Thus BRAC, the Grameen Bank, TRDEP, K-REP and BancoSol all have savings programmes of this kind, although these funds are not available to members. Some members are very critical of this situation. By saving in this way, saving becomes a cost of taking the loan rather than a service, and some users may prefer to build up a stock of savings to draw on in future rather than take new loans. [12]

The compulsory savings drawback coupled with the high interest rates charged by MFIs to offset high service costs, led one local official to comment that the microcredit institutions are 'merely the new exploiters'. [15]

Increasing savings programmes is not only important for the borrowers, as savings are also a major source of funding. Savings can play a key role in transforming a sustainable MFI into a fully self-sufficient financial intermediary. Successful MFIs often have many more depositors than borrowers. For instance, BRI has six times as many deposit accounts as loans. [9]

The Microcredit Summit estimates that it should be possible to raise US$2 billion from borrowers' deposits. In view of the high and growing demand for savings facilities, this figure may well be an underestimate.

**Groups or individuals?**

Grameen's 'solidarity group' system combining peer pressure and support has been emulated by many of the MFIs. By this means (the argument runs) the very poor achieve repayment records equal to, and frequently better than, conventional borrowers. For example, BancoSol in Bolivia (part of the ACCION network) revealed that only 0.04 per cent of the loan portfolio was in arrears beyond thirty days, compared to 4.42 per cent figure at other banks. [16]

But the 'solidarity group' system can also work against some individuals. Borrowers with BRAC and other MFIs have reported the forced seizure of defaulters' livestock, cooking pots or other assets by members of their group, in order to redeem loans. A number of Grameen Bank suicides have been reported in the Bangladeshi press, deaths allegedly occurring as a result of peer group pressure to repay failed loans. [15]

It may be that (contrary to the gist of NGO thinking) the organisation of borrowers into groups is neither essential nor necessarily supportive to a successful microcredit operation. Certain MFIs in Malawi and Indonesia have had better results with schemes based on individual accounts than comparable ventures based on a group approach. [12]

There are other MFI formats that do not require the solidarity group system. Two such alternatives are credit unions (such as SEWA in India) and village banks - community-managed credit and savings associations one of which (FINCA) operates world-wide. Neither, however, works on the same scale as the Grameen model. Some MFIs use personal references and guarantees as social collateral instead of the solidarity group system.

### Barriers to microfinance

While the Grameen Bank model of an MFI has been replicated with success in many areas, there are certain situations where aspects of this kind of programme can collide fatally with local culture. Examples include:

Areas with a strict Muslim code where charging interest is not allowed. 'Service charges' can be made in place of interest but some fundamentalist groups still object strongly to the practice.

Areas where there exists a strong caste system, such as India. Here, the formation of a group of borrowers among people of different caste appears to be impossible.

Situations where the population is widely dispersed and where the transaction costs of servicing borrowers will therefore be so high as to make financial sustainability almost impossible. This case occurs in much of rural Africa which has a much lower average population density and less developed markets than rural Asia.

Countries where the current economic regulatory framework is counter-productive to MFIs and their clients. Legal safeguards are needed to protect depositors, who at present are too often dependent on the goodwill and managerial efficiency of NGOs. In a number of cases fraudulent operators have set themselves up as unaccredited NGOs or credit unions and run off with the savings of the poor.

## The next step up

Microfinance is often considered a stepping-stone to conventional banking. However, there may be a 'banking hinterland' between the two.

For instance, the ADMIC programme in Mexico has found that between 30 and 40 per cent of micro-businesses using its credit programme expand enough for their financial needs to surpass the maximum loan that the programme can award them. So borrowers may be technically ready to enter the formal financial market but the majority cannot do so because their turnover has not yet reached a level into which formal financial institutions will want to buy. Some MFIs have started to implement schemes to help borrowers in this transition phase, but analysts say more research needs to be done. [17]

## Microfinance in the North

Providing credit and savings facilities is also a need for poor people in the global North, many of whom are excluded from the conventional banking system in much the same way as poor people are in the global South.

The South Shore Bank in Chicago is a famous community banking initiative which started in the 1970s. The bank wanted to relocate from this poor area with its high crime rate to a richer, less troublesome quarter. The community campaigned for it to stay and eventually raised the funds to buy the bank. Loans are now made to local people specifically for renovating property. This approach provided the bank with a safe investment, took advantage of local skills and improved the built environment. Jobs eligible for loan support include improvements such as cleaning up one's yard, adding lights or painting the front of the house.

In the United Kingdom a quarter of adults have no bank account and many resort to money lenders who can legally charge interest rates of up to 75 per cent. Some illegal money lenders have been known to extort up to 20,000 per cent. Credit Unions are the most common financial institutions serving the poor. Membership is determined through a common bond. Community Credit Unions serve some of the poorest inner city estates in the UK. Other Credit Unions serve those in a particular field of work or company, such as British Airways and News International.

Credit Unions in the UK are not allowed to loan money for business use, however, so some British groups are now seeking to imitate solidarity group lending MFIs active in the United States and Canada. ACCION has six US associate institutions lending to micro-business which offer business training and loans which start at US$200. It estimates it will lend US$50 million to more than 8,000 micro-entrepreneurs annually. [18]

## 3 WOMEN: WINNERS OR LOSERS?

Microfinance schemes are often presented as the key to the development aspirations of women. The need for poverty-alleviation schemes which target women and children is unarguable. Women earn only 10 per cent of the world's income and own less than 10 per cent of the world's property while of today's 1.3 billion absolute poor - people living on less than $US1 a day - over 900 million are women. [4]

### Missing the target?

Woman are rarely beneficiaries of conventional financial services. In Africa for instance, women supply more than 60 per cent of agricultural labour and contribute up to 80 per cent of total food production, yet receive less than 10 per cent of the credit provided to small farmers.

Women are considered in many societies as unfit to assume the responsibility of credit, despite the fact that they generally take responsibility for the survival of their families. Most MFIs target women as borrowers as part of the development dimension of their strategy, although financial benefit is also involved as women borrowers have outstandingly good repayment track records. [19]

Anne Marie Goetz and Rina Sen Gupta have speculated that: 'The credit-giving NGOs may simply have off-loaded some of its debt collection task onto the backs of long-suffering women'. Yet the extent to which women can improve their standard of living through microfinance may be limited by macro-economic policies [20] As another social researcher has pointed out the success of micro-enterprise programmes for poor women is seriously constrained by a lack of welfare provision. 'Lack of childcare and basic domestic infrastructure (domestic technology, decent housing and so on) increases the time women spend on unpaid domestic work and limits the time they are available for paid work. Lack of education limits the success of training programmes. Lack of health care and infrastructure (such as free safe water) significantly increases the costs of survival and reduces the time available for work, given women's key role as carers and provider for their families.' [21]

Some MFIs adopt a more specific gender focus than others. 'All they [women] possess are the skills and knowledge of their trade and their physical labour,' says Mirai Chaterjee of the Self Employed Women's Association (SEWA). 'There are few laws or organised schemes that protect such workers and they therefore remain poor and exploited, ekeing out a living, invisible to policy makers, planners and legislators.'[22]

SEWA turned itself into a bank to provide credit for its members after acting as a financial intermediary between members and commercial banks for several years. It now provides conventional banking services, but it has adopted procedures and designed schemes suitable to poor, self-employed women,

---

**Success in Bangladesh - Mehrunessa's life**

Mehrunessa is a 38 year old Bangladeshi woman, although to look at her you would think she was in her sixties. Married at the age of ten, widowed at 17 with three children, and abandoned by her second husband when her fourth child was wo and a half months old, she has struggled through life keeping her family alive through begging. When she finally gained a job she was paid 80 Taka (£1.30 a month) for digging a road.

There are millions of Mehrunessas living all over the developing world. As women, they are the most financially disadvantaged people in society and considered the least credit-worthy by ordinary banks. Yet women invariably bear most of the burden of survival. Mehrunessa and her children would have continued to live in grinding poverty had it not been for a small US$50 loan given to her by the Grameen Bank with which she was able to buy rice to husk. thirty months later, having taken and paid off six small loans amounting to less than US$500, she has bought livestock, a second-hand rickshaw from which her youngest son earns 100 Taka a day, and plans to mortgage and cultivate land. "I have done a lot of struggling," says Mehrunessa, "but now I am in a good position. I want to start a new life and build a new home." [23]

---

such as rescuing women's jewellery from pawnbrokers and private money lenders, giving loans against jewellery, providing deposit-linked group insurance, legal aid, productivity training and education, maternity protection, child care, and other social welfare services.

**A credit lifeline**

Being part of a MFI gives women a legitimate reason for coming together - an opportunity in which many women delight. Evidence over the last two decades of MFIs shows that women are extremely effective at using credit well and repaying at high rates given the right circumstances. [12]

The main reason given by MFI policy makers for focusing on women is the need to 'empower' women through social and economic development programmes, a commanding focus of donor programmes since the 1980s. The positive socio-economic benefits of microfinance are said by many analysts to out-perform many income-generating aid programmes, particularly for women, and various gender-focused studies have been undertaken which assess whether these assumptions are true. They tend to show that the longer a woman is involved with a microfinance scheme, the greater her 'empowerment'. [24]

But the Institute of Policy Studies in Washington has sounded a warning that some of the donors involved with CGAP have bad track records on gender and could easily backtrack. For instance, the majority of USAID spending in 1990-93 went to men. Women received 56 per cent of the total number of loans, but only 35 per cent of the total money available. Moves towards 'market realism' say the critics, can only increase the problems associated with addressing the needs of poor women. [21]

**Small is best**

In many countries there are societal barriers that prevent women from owning property and women often experience gender discrimination in the way they are treated by orthodox banks. Microfinance institutions generally seek to reverse this discrimination and often put strong focus on non-financial services such as training women to deal with such attitudes through non-formal education, providing literacy training, and increasing leadership ability. The downside is that such training can put new burdens on women on top of existing domestic, child care and production tasks and can lead some women to avoid applying for credit. [25]

Where female participation has been specifically encouraged by donors, there have generally been significant increases in the number of women borrowers. In fact the lower the loan offered, the more women seem to want it (women seem to be more risk averse than men) and the greater the outreach to the poorest becomes. For example, by lowering the average amount of loans by 50 per cent, a Senegalese project immediately doubled the number of its female beneficiaries. [13]

**Women in control?**

Women's income may be increased as a result of microfinance but there are doubts about how much of this income benefits or is controlled by the women. Some surveys indicate that a significant number of loans given to and repaid by women are in fact used by men. [20]

In Bangladesh, although repayment rates were very high and large numbers of borrowers were reached, women only exercised partial or limited control over 53 per cent of loans provided to them by Grameen Bank, BRAC, and two women's NGOs. Is the problem that microfinance programmes are merely increasing women's workloads and responsibilities without increasing their control over their income, time and expenditure?

Furthermore, when women retain full or significant control over their loans, they commonly use them to provide for 'traditional' women's activities, notably raising livestock and poultry, rather than new uses. Are loans necessarily empowering women when they do little but reinforce their traditional role? Many see such questions as inappropriate. In the end it is up to the women to decide on the most effective use of loans.

Finding out about who controls the use of the loan is extremely complex, and microfinance (like any other intervention) has to be analysed within a given socio-economic and cultural context. Involvement in a microfinance scheme can still empower women in ways they find relevant, even in cases when they give the entire loan to their husbands. Bangladeshi women who gave their loans to husbands still had an 'empowerment rating' of 36 per cent, compared to 9 per cent for women who were not involved in MFIs and those who had no credit programme in their village. [24]

The larger the loans are, the more men seem to control them. But as men often have easiest access to business markets this may be the best way of managing the loan for the household. So this trend may owe more to good business sense on the women's part than to an empowerment failure. [24]

Even when loans are passed to men, credit programmes have nevertheless had an important positive impact on a large number of women. Grameen Bank women borrowers who had transferred their entire loan to a male relative had better nutritional status and spent more on their clothing and medical needs than the wives of male borrowers. [20]

Access to microfinance also allows women to keep marginal businesses afloat without recourse to money lenders, to switch to more lucrative jobs, to diversify their activities and get a secondary job, or to reduce their vulnerability to debt through diversion of the loan in times of major stress, illness, flood, death or the desertion of a husband. [21].

Having an opportunity to save has been highlighted by many women as a highly prized benefit. Savings provide an independent source of money to fall back on in times of crisis. Money is protected which might normally have been appropriated by their husbands or spent on everyday needs. For the most vulnerable women in society, especially those who are widowed, separated or divorced, microfinance can provide significant opportunities for advancement. Studies in Bangladesh have shown that lone women retain greater control over their loans (55 per cent compared to 18 per cent for women in general) though 25 per cent of all loans are still fully appropriated by men. [20]

**Boosting self-esteem**

The creation of a regular meeting forum in the form of MFI rallies is for many women who live in poor neighbourhoods a significant break from social restrictions, particularly in strictly ordered Muslim communities.

Because of the purdah tradition, Muslim women in some communities are confined to the home or the area immediately surrounding it, and contact with people outside the family is extremely limited. This is not true of all Muslim communities, however. Women in West African Muslim communities, for instance, are allowed greater freedom and women traders are common.

For those who are more restricted however, being able to develop an identity outside the family circle and to learn to interact with outsiders and with figures in authority is highly valued by the women as a boost to confidence and self-esteem. This breakthrough has been described by many women as 'learning to talk'. [24]

Observers also point to an increased status in the household for women and a fall in domestic violence against women on account of their increased power and standing. As one Bangladeshi woman explained: 'In the past my father-in-law would never stop my husband from beating me. But after I joined Grameen Bank he said to my husband, "You had better stop beating and scolding your wife. Now she has contact with many people in society. She brings you loans from Grameen Bank. If you want to you can start a business with the money she brings!" [24]

While there is universal agreement that women can and do benefit socially from microfinance, the truth is not always quite so rosy. There are also reports that domestic violence sometimes increases as a result of disagreements about control over the loan, men's disapproval of women's participation in such schemes, and pressure by women on men to help out with repayments. [20]

Other reports have shown that men can be very supportive of their wives' participation in schemes, though not always for the right reasons. As one man whose wife drew a loan from ASA explained: "I encouraged it, because we would get money and I wouldn't have to work so hard!" [15]

Dealing with spouses is often the focus of social and educational training at MFI group meetings. In many ways it would perhaps be more sensible to give men the gender education but it is generally the women who are taught how to deal with their husbands, not the other way round. Some MFIs such as BRAC do have a more informal atmosphere and invite men to come to the bank with their wives.

---

### Increasing self-esteem

At present, in many communities, the increased self-esteem and income which micro-entrepreneurs gain from successfully managing their own affairs enables them to purchase or lobby for goods and services which traditional welfare projects might provide.

In Barranquilla, Colombia, a group of women working with Opportunity Trust's local partner, Agape, formed a 'trust bank', in which members mutually guarantee each other's small loans. Encouraged by the success of their individual businesses, they decided that they could work together to do more for their neighbourhood.

Although most parts of Barranquilla had electricity, their shanty town did not. The women decided to hold events to raise money to have power lines installed. Then they negotiated with the power company to have the power connected. For a group of poor women, this was a major milestone. [26]

---

## 4 THE ROLE OF 'VALUES' SYSTEMS

"Most MFIs give their clients considerable freedom over the uses to which they put their loans. The client, it is assumed, best knows the local market and their skills and business ideas are also assessed by the organisation's staff or the members of the group in the case of group loans. However, some organisations may have other aims and concerns which effectively limit the client's choice of business. Charcoal production or prostitution are two obvious examples of businesses which many organisations might not wish to support." From an Opportunity Trust publication 'Microfinance and the Promotion of Autonomy' June 1996.

Microfinance schemes nearly always try (directly or indirectly) to influence the well-being of clients through other means. Such means may amount to psychosocial or political 'empowerment'. But the values donors bring with them, whether they are development charities or nationals from outside the local community, are bound to reflect their own culture.

Donors are prone to impose their own 'enterprise culture' on borrowers. This culture may be so firmly embedded in institutions that it seems to them to be beyond question. Yet attaching high value to economic growth is not (for example) common to all cultures. Likewise many individuals may be glad of an opportunity to raise themselves and their families out of poverty but may well prefer to be employees rather than entrepreneurs.

---

**Sixteen promises**

The Grameen Bank, on which many other MFIs are modelled, and the style of which is a major focus of the Summit, has one of the most structured and regimented systems through which borrowers not only commit themselves to the group, but also learn and promise to commit themselves to certain social and welfare values which are of benefit to their welfare.

Before being allowed to join a group each woman has to learn to sign her name and learn the 'Sixteen Promises'. These promises, chanted at every meeting, include looking after their health, educating their children, repairing their houses, building and using pit-latrines, growing vegetables, drinking clean water, undertaking higher investments for higher incomes, helping out their group members, not taking part in dowry and not practising child marriage, and undertaking physical exercise in the centre. Borrowers also take part in the programme in a military style, raising the Grameen flag, saluting it before meetings, singing a Grameen song, and referring to the bank workers as 'Sir'.

The style does seem unusual, especially to people from outside Bangladesh. However, supporters maintain that such a style is highly appropriate in a society which is very hierarchical, and in which the women feel at home with a more formal setting. [15]

---

So is it enough for MFIs to limit their work to straightforward delivery of financial services? Many NGOs who run MFIs feel that it is not, and want microfinance to carry an additional 'value-added' point or message. Microfinance therefore often forms only part of an NGO's activities and borrowers are liable to be influenced by views of development which the NGO is pledged by its constitution to support.

These views often embrace a mission to support family planning, appropriate technology, community organisation, education or (in the case of some charities) religious values. In this sense, participants in microfinance are no different from participants in other development programmes who come under the influence of outside parties and agendas.

MFIs which are not part of an integrated NGO development project often still incorporate social and welfare training into their programmes both out of a sense of support for the borrower and because building group solidarity has been seen to have a beneficial effect on repayment rates. Groups of borrowers will often be encouraged to discuss topics such as marital issues, health and education as well as being given skills and marketing training relevant to the success of their micro-enterprises.

## A moral dilemma

Some observers question the ethics of imposing cultural change through an MFI's influence. One MFI (for instance) asked women to pledge that they would oppose the dowry system, a promise that they were unlikely to be able to keep and which could have placed them in a difficult domestic situation. Others argue that such commitments are understandable and beneficial to borrowers. If all the women in the group make the same promise they can exert important leverage for change in the community.

## Whose values count?

Many observers maintain that the values that borrowers subscribe to should be democratically decided by the borrowers rather than imposed on them by outsiders. As well as favouring a more participatory and grassroots-up approach, this provision should also reduce wariness about the scheme and heighten the participants' sense of commitment. But keeping outside influence at bay can often be extremely difficult.

As Peter McAllister of CARE remarks: "We often export a set of values. We may not pin them to the wall but we do ask people to conform to a certain value system that we think will be good for them." For instance, Northern NGOs would probably not want to provide credit for women to buy sterile equipment for female circumcision, although to the women themselves this might appear a perfectly reasonable purchase to make with loaned money.

Conversely, in the case of certain state-run programmes the views that the lender promotes may be anything but 'empowering' for women. For example, the objectives of TRDEP, a state-run MFI in Bangladesh, were less empowering than those of foreign donors. Policy makers were worried about the breakdown of traditional rural family life, so borrowing groups were limited to people from the same family and the use of loan was controlled by men in order to enforce traditional roles. [19]

However, identifying oneself with an 'outsider' group's values can arouse great suspicion within the family and community. Microfinance promoters often have to work hard to convince relatives and village leaders that the programme will not be teaching the borrowers 'bad' things, or working against the religious values of the community.

## Flip side of the coin

In many ways borrowers may consider conforming to the 'ritual' imposed by the MFI (such as chanting promises or listening to talks) as yet another banking cost they have to pay in order to get their loan. To think of Northern commercial banks giving their customers lectures on health or family issues is unthinkable, so should it be an integral part of MFIs?

Conversely, the social support gained from being part of such programmes has been cited as crucial to the success of MFIs and to the well-being of its borrowers. "The values training has awakened in us a sense of solidarity, of knowing that one is not working alone," says Nubia Viafara, a borrower with FUNDAEC, an MFI in Columbia which promotes an explicit focus on human values. FUNDAEC found that training in values through well-developed courses wrought the most important result of the programme - a sense of unity. [27]

---

**Owning the Bank**

Vidiyal Rural Women's Bank is owned and managed by a federation of 23 local women's organisations in Tamilnadu, south India, established with the help of Christian Aid's partner Activist for Social Alternatives (ASA). The elected federation leaders act as the directors of the bank and set the rules. Loan decisions are made by the groups and ratified by the directors.

The combined existence of the federation and the bank has brought the women not only economic independence but also a collective social strength. They have been freed from their former dependence on feudal masters and from exploitative money lenders. They have gained a new respect from their families as they have increasingly contributed to the family income. They now have the confidence to tackle officials and to claim their rights to government schemes and fair administrative decisions. They act together to oppose destructive traditional practices such as child marriage, and have even formed labour co-operatives to strengthen their capacity to earn.' [28]

---

What are the consequences of such values training? NGO microfinance programmes often incorporate family planning facilities, which are generally much sought after by women borrowers. Medium term benefits may, however, be outweighed by the long-term consequence of having fewer sons (or no sons) to support them in their old age. A study of microfinance schemes world-wide showed that none of them generated sufficient income for more than a handful of its poor borrowers to amass an asset base that could generate a quasi-pension when they grew too old or infirm to operate their own income-generating activities. [19]

**Are borrowers in control?**

Many NGOs have suggested that organisation and self-management are predominant factors both in building a successful MFI and in the wider context of the battle against poverty. In a recent report on microcredit schemes Christian Aid observed that most of them "... have replaced traditional collateral with collective responsibility and therefore involve some degree of participation in democratic decision-making. But some of the best-known do not include ownership or control of the institution by the (significantly) organised poor. Rather, the poor are clients, and are formed into often very small groups with - in practice - little or no activity beyond relating to the microcredit provider. There is no involvement in the management of the institution itself, the democratic arena is very limited, and there is insufficient attention to issues other than that of individual income." [28]

Other NGOs have pointed out, however, that a more grassroots-up approach is very hard to facilitate. Speaking at the UK Microcredit Forum, Annie Harper of the Aga Khan Foundation in Pakistan said: "In practice the bottom-up approach is often very top-down. There are actually enormous problems in maintaining peoples' commitment even though based on peoples' participation and ownership."

---

## References


[1] 'The Consultative Group for Assisting the Poorest: A Microfinance Program', CGAP Focus Note No.1, April 1996.

[2] Yunus, M., 'Building Solidarity Between the North and the Bottom Fifty Per Cent of the South', Grameen Dialogue, Issue 18, Grameen Trust, April, 1994.

[3] Christen, R.P. Rhyne, E., Vogel, R.C., McKean, C., 'Maximising the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs' Study for USAID, extracted in CGAP Focus Note No. 2, October 1995.

[4] Microcredit Summit Draft Document, Results Educational Fund 1996.

[5] 'The World Bank's Consultative Group to Assist the Poorest: Opportunity or Liability for the World's Poorest Women around the Globe?', Institute for Policy Studies, September 1996.

[6] 'IFC to Invest up to US$3 million in Microenterprise Fund', International Finance Corporation Press Release, No. 96/90, 13 March 1996.

[7] Microenterprise News, Vol. 6 No.1, Early Summer, 1996.

[8] Chu, M. 'Innovative Financing Boosts Small Business', Centre for International Private Enterprise, 1995.

[9] Churchill, C.F., 'An Introduction to Key Issues in Microfinance', MicroFinance Network, February 1996.

[10] 'Unprecedented Private Investment Initiative for Micro-enterprises Launched at UNCTAD IX', UNCTAD Press Release, 30 April, 1996.

[11] Kane, H., 'Micro-enterprise', World Watch, Mar/Apr 1996.

[12] Hulme, D., and Mosley, P., Finance Against Poverty, Vol 1 and 2, Routledge, 1996.

[13] Dhonte, R., et al. 'Evaluation of Credit and Savings Projects Co-financed by the European Commission with NGOs', Final Report. European Commission, 1994.

[14] Johnson, S., and Rogaly, B., Microfinance and Poverty Reduction, Forthcoming Publication, ActionAid and Oxfam, 1997.

[15] Rutherford, S. ASA the biography of an NGO, 1993.

[16] Otero, M., and Rhyne, E. The New World of Microenterprise Finance. IT Publications, 1994.

[17] Martinex, H.P. 'The Gray Area in Microenterprise Development', Grassroots Development 14/2, 1990.

[18] Chu, M. Developing Microlending in the United States: Bringing ACCION's Lessons Home, ACCION International, Paper to the Office of the Comptroller of the Currency National Conference on Community Development, February 1996.

[19] Hulme, D., 'Finance for the Poor, Poorer or Poorest? Financial Innovation, Poverty and Vulnerability'. University of Manchester. Paper for Finance Against Poverty Conference, University of Reading, 27-28 March 1995.

[20] Goetz, A.M, and Gupta, R.S, 'Who Takes the Credit? Gender, Power and Control Over Loan Use in Rural Credit programmes in Bangladesh' IDS Working Paper No. 8, Institute of Development Studies at the University of Sussex. 1994.

[21] Mayoux, L., 'From Vicious to Virtuous Circles? Gender and Micro-Enterprise Development', Occasional Paper for UNDP, Fourth World Conference on Women, Beijing, 1995.

[22] Chatterjee, M., 'Organising Self Employed Women: experiences of the Self Employed Women's Assocation', Occassional paper, February 1995.

[23] Wheat, S., 'Banking on the Future', Geographical Magazine, September, 1995.

[24] Hashemi, S.M., Schuler, S.R., and Riley, A.P., 'Rural Credit Programs and Women's Empowerment in Bangladesh', World Development, Vol 24. No.4, 1996.

[25] Have, J., Dignard, L. Eds., Women in Micro and Small-Scale Enterprise Development, IT Publications, 1995.

[26] 'The Autonomy of Micro-enterprise Organisations'. Opportunity Trust paper for ADA seminar 'Financing micro-enterprises in the Third World, June 1996.

[27] 'In Columbia: a microcredit project aims to reawaken solidarity', One Country, April/June 1996

[28] 'Microcredit: Small Loans to Meet the Needs of the Poor: Recommendations for Future Strategy in Response to the Microcredit Summit Draft Declaration and Plan of Action'. Christian Aid, September 1996.

---

## Contacts

**Microcredit Summit Secretariat**

c/o RESULTS Educational Fund

236 Massachusetts Avenue, NE

Suite 300 Washington, DC 20002 USA

Tel. 202 546 1900 Fax. 202 546 3228

E-mail: **microcredit@igc.apc.org**

Web: **www.microcreditsummit.org**

**Consultative Group to Assist the Poorest (CGAP) Secretariat**

The World Bank

1818 H Street

NW Washington DC 20433

USA

Tel. 202 473 9594

Fax. 202 522 3744

E-mail: **cproject@worldbank.org**

**UN Conference on Trade and Development Special Programme for Trade Efficiency**

Palais des Nations

1211 Geneva Switzerland

Tel. 41 22 907 5537

Fax. 41 22 907 0052

E-Mail: **masoumeh.malberg@unctad.org**

Web: **http://www.itu.int**

**Grameen Bank**

Mirpur-2

Dhaka 1216 Bangladesh

Phone/fax 880 2 80 63 19

E-mail: Toolnet: 9:1880/1.6

grameen@driktap.tool nl.

---

**This briefing was written by Sue Wheat and edited by Robert Lamb.**