A RIGHTS-BASED ASSESSMENT OF MICROFINANCE AS A POVERTY ALLEVIATION TOOL

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Microfinance[1] - defined as efforts to improve poor people's access to loans and saving services - has been described as the fastest-growing and most widely recognized anti-poverty tool.[2] Microfinance spread quickly across the globe because few other tools promise to fight poverty as effectively.[3] As of December 31, 2005, 3,133 microcredit institutions, from all over the world, have reported reaching 113,261,390 clients, 6681,949,036 of whom were among the poorest when they took their first loan. Of these poorest clients, 84.2 percent, or 68,993,027, are women. Eight hundred forty-seven of these institutions submitted an Institutional Action Plan to the Microcredit Summit Campaign in 2006. Together these 847 institutions account for 88 percent of the poorest clients reported. Assuming five persons per family, the 81.9 million poorest clients reached by the end of 2005 affected some 410 million family members.[4]

The human rights impact of microfinance is unknown. A human rights impact assessment of a given microfinance institution is yet to be seen. Amidst this darkness, a distinct stream of microfinance, led by Grameen Bank, claims microcredit as a human right. The object of

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1 The shift in terms from microcredit to microfinance is recent. This shift reflects the acknowledgment that saving services, and not just loans (credits), may help to improve wellbeing of the poor. See Zeller, Manfred and Sharma, Manohar (2000) *Many borrow, more save, and all insure: Implications for food and micro-finance policy*, in Food Policy, Vol. 25, pp. 143-167; MacIsaac, Norman (1997), The Role of Microcredit in Poverty Reduction and Promoting Gender Equity: A Discussion Paper, Report to CIDA; Morris, Gayle A. and Richard L. Meyer (1993), "Women and Financial Services in Developing Countries: A Review of the Literature, Economics and Sociology, Occasional Paper No. 2056, The Ohio State University.

2 Schreiner, Mark (2003), "A Cost-Effectiveness Analysis of the Grameen Bank of Bangladesh", Center for Social Development, Washington University in St. Louis.

3 Morduch, J. (1999), "The Microfinance Promise" *Journal of Economic Literature*, 37(4): 1, pp. 569-614.

4 Daley-Harris, Sam (2006), *State of The Microcredit Summit Campaign Report 2006*, The Microcredit Summit Campaign, Washington DC, USA, p. 2.

the present article is not to question the validity of this claim rather it will assess microfinance as a poverty alleviation tool from a rights-based perspective. In doing so, in the first section of the article, I will generally introduce microfinance as a poverty alleviation tool and then select a model of microfinance for assessment. The second section will select a few rights-based features that will constitute a yardstick to assess the selected microfinance model from a rights-based perspective and examine the selected model accordingly. In the third and last section, I will consider the rights-based challenges that the selected model of microfinance in particular, and other MFIs in general, may face.

1.1. Microfinance as a poverty alleviation tool

The idea of informal microfinance originated in Bangladesh, which is one of the LDCs. Within a very short span of time the idea was borrowed and applied in many poor countries, mainly LDCs. This is because for most of the LDCs, economic development is synonymous with rural development.[5] Still the majority of people are entrapped in the quagmire of poverty and backwardness. If rural development policy is to bring serious and sustained amelioration to the lives of the millions of the people living in the countryside, a significant part of the resources to promote rural development must come from the rural area itself. And from this realization the idea of microcredit programmes were introduced as a means of rural resource mobilization.[6]

From the recent development experience of many LDCs, some commentators suggest that microcredit has opened up a window of opportunity to break the vicious circle of poverty and create 'virtuous circles' of growth and welfare.[7] As such, sustainable local community development and the role of microcredit in rural development are currently high-priority subjects in most LDCs. Providing the poor

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5 Hung, Chi-Kan Richard (2001), "From South to North: A Comparative Study of Group-Based Microcredit in LDCs and the United States" in Carr Jim and Zhong Yi Tong (eds.), *Replicating Microfinance in the United States*, Washington, D.C.: Fannie Mae Foundation, chapter 8.

6 W. Blair Harry (ed.) (1989) *Can Rural Development be Financed from Below? Local Resource Mobilization in Bangladesh*, University Press Limited, Dhaka.

7 Masanjala, W.H. (2002) Can the Grameen Bank be replicated in Africa? Evidence from Malawi, *Canadian Journal of Development Studies*, 23(1), pp. 87-104; Mosley, P. and Rock, J. (2004) Microfinance, labour markets and poverty in Africa: A study of six institutions, *Journal of International Development*, 16(3), pp. 467-500.

with access to financial services is one of many ways to help increase their options, incomes and productivity. In many countries, however, traditional financial institutions have failed to provide this service.[8] Microcredit and co-operative programmes have been developed to fill this gap. Their purpose is to help the poor become self-employed and thus escape poverty. Many of these programmes provide credit using social mechanisms, such as group-based lending, to reach the poor and other clients, including women, who lack access to formal financial institutions. With increasing assistance from the World Bank and other donors, microfinance is emerging as an instrument for reducing poverty and improving the poor's access to financial services in low-income countries.

In the 70s and the early 80s, certain NGOs of Bangladesh proposed microcredit as a means to increase productivity by creating employment and developing human capital.[9] Since the poor did not have much access to institutional credit, it was thought that it will open a way to generate self-employment opportunities for the poor. Many critics opposed that idea on many grounds, for example, microfinance supported small enterprises have no sustained impact on the poor,[10] it makes the poor economically dependent on it,[11] and it may not be cost-effective.[12]

Many countries have established microcredit programmes with explicit objectives of reducing poverty by providing small amounts of credit to the poor to generate self-employment in income-earning activities. Bangladesh is a leader among low-income countries offering microcredit. Using group-based approach to lending, the

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8 Adams et al. (eds.) (1983), *Limitations of Cheap Credit in Promoting Rural Development*, Washington, D.C., World Bank, Economic Development Institute.

9 Hossain, Akhtar (1996), *Macroeconomic Issues and Policies: The Case of Bangladesh*, UPL, Dhaka.

10 See for example, Bouman, F. J. A. and Otto Hospes (1994), *Financial Landscapes Reconstructed: The Fine Art of Mapping*, Boulder, Colo.: Westview Press.

11 Adams, Dale W. and J. D. von Pischke (1992), *Informal Finance in Low Income Countries*, Boulder, Colo., Westview Press.

12 Vogel, R. (1984), *The Effect of Subsidized Agricultural Credit on Income Distribution in Costa Rica*, Adams, D.; D. Graham and J. D. von Pischke (eds.) (1984), *Undermining Rural Development with Cheap Credit*, Westview Press, Boulder; Ravallion, M. and G. Datt (1995) Is Targeting Through a Work Requirement Efficient? Some Evidence from Rural India, van de Walle, D. and K. Nead (eds.), *Public Spending and the Poor: Theory and Evidence*, Johns Hopkins University Press, Baltimore.

country's small-scale microcredit programmes provide more credit that do traditional financial institutions in rural areas.

1.2 Selected Model of microfinance

For the purpose of this article I will select the Grameen Bank microfinance system as a model. The Grameen model is the primary and original model of microfinance and most of the MFIs in the world today are either clones or replications of Grameen model or inspired by the Grameen model. Grameen Bank, founded by Professor Muhammad Yunus in 1976 as a project and transformed into specialized bank in 1983, is the best-known microcredit programme.[13]

The bank's group-based lending scheme has two important features that attract the poor: borrowers are allowed to deal with a financial institution through a group and members self-select their own group. Group-based lending also reduces Grameen Bank's default costs by exerting peer pressure to repay loans. It also allows Grameen Bank to pool resources and diversify the risks of lending across communities and groups, thus enabling it to provide loans at an affordable price.

Table A: Amount of Loan Disbursed by Four Major MFIs in Bangladesh[14]

MFIs	Amount (in million US$)	Total clients (in million)
Grameen (as of February 2006)	3699.187	5.77
ASA (as of December 2005)	2077.87	5.99
BRAC (as of December 2005)	2084.08	5.08
Proshika (as of December 2005)	446.88	2.77

Grameen's group-based lending approach is the guiding principle for more than 750 NGOs operating small-scale microcredit programmes in Bangladesh. Three other large NGOs providing microcredit programmes are ASA,[15] BRAC and Proshika with about 20 million

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13 Both the Grameen Bank and its founder Professor Muhammad Yunus won Nobel Peace Prize in 2006 "for advancing economic and social opportunities for the poor, especially women, through their pioneering microcredit work".

14 Ministry of Finance (2006), *Bangladesh Economic Review 2006* (Bangla Version), Finance Division, Ministry of Finance, Government of Bangladesh, Dhaka.

15 ASA has been called the most efficient MFI in the world, able to lend at a cost of US 3.5 cents per dollar lent. See Sam Daley-Harris (2005) State of The

members among themselves. All these three NGOs are clones of Grameen. Till December 2004 a total 721 registered NGOs disbursed 338630.56 among 16.20 borrowers. The overall repayment rate has been shown as 98.79%.[16] This shows the rapid growth of microfinance programmes in Bangladesh. Currently around 25 million people in Bangladesh have access to microfinance services under Government of Bangladesh supported programmes, more than 750 NGOs including Grameen, BRAC, Proshika, and ASA. Of these 86 per cent are women. Most of the disbursements have been in rural areas, less than two per cent being directed at urban areas. Grameen transplants operate in other parts of Asia,[17] United States,[18] Europe,[19] Africa, [20] and Latin America.[21]

1.3. Basic features of the Grameen model

Grameen has been credited with addressing structural determinants of poverty, the economic and social status of women, and sources of vulnerability in ways that have eluded other approaches.[22] Non-

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Microcredit Summit Campaign Report 2005, The Microcredit Summit Campaign, Washington DC, USA, p. 12.

16 Credit and Development Forum (CDF) (2004), *CDF Statistics 2004*; see also Credit and Development Forum (1998), *Microfinance Statistics of NGOs and other MFIs*, Volume 6, June 1998, Credit and Development Forum, Dhaka.

17 Hulme, D. (1990), "Can the Grameen Bank be replicated? Recent experiments in Malaysia, Malawi, and Sri Lanka" *Development Policy Review*, 8, pp. 287-300; Wall Street Journal (1998), "Microcredit Arrives In Africa, but Can It Match Asian Success?", Sept. 29, Section A., p. 1.

18 Conlin, M. (1999), "Peer-group micro-lending programs in Canada and the United States" *Journal of Development Economics*, Vol. 60, pp. 249-69; Taub, R. P. (1998), "Making the Adaptation Across Cultures and Societies: A Report on an Attempt to Clone the Grameen Bank in Southern Arkansas" *Journal of Developmental Entrepreneurship*, Vol. 3, No. 1, pp. 53-70.

19 Rogaly, B.; T. Fisher, and E. Mayo. (1999), *Poverty, Social Exclusion, and Microfinance in Britain*. London: Oxfam.

20 Binswanger, Hans P.; and Pierre Landell-Mills (1995), *The World Bank's Strategy* for Reducing Poverty and Hunger: A Report to the Development Community, Environmentally *Sustainable Development Studies and Monograph 4*. Washington, D.C., World Bank; Khandker et al. (1995), "Grameen Bank: Performance and Sustainability, World Bank Discussion Paper 306, Washington, D.C., World Bank".

21 Thomas, J. J. (1995), "Replicating the Grameen Bank: the Latin American Experience" *Small Enterprise Development*, 6(2), pp. 16-36.

22 See for example, Fugelsang, Andreas and Chandler, Dale (1993), *Participation as Process — Process as Growth: What We Can Learn from Grameen Bank Bangladesh*, Revised edn., Grameen Trust, Dhaka; Hashemi, S. M., Schuler, S. (1997),

governmental organizations on four continents have now replicated Grameen's model with hopes of spreading the vision.[23]

The Grameen model emerged from the poor-focused grassroots institution. The model starts with setting up a bank unit up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, collective responsibility of the group serves as collateral on the loan.[24]

Grameen's credit delivery system has the following features:[25]

1. It promotes credit as a human right.

2. There is an exclusive focus on the poor.

Exclusivity is ensured by:

- establishing clear eligibility criteria for selection of targeted clientele and adopting practical measures to screen out those who do not meet them

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"Sustainable Banking with the Poor: A Case Study of Grameen Bank", JSI Working Paper No. 10, JSI Research and Training Institute, Washington, DC.

23 Morduch, Jonathan (1999), "The Role of Subsidies in Microfinance: Evidence from the Grameen Bank" *Journal of Development Economics*, Vol. 60, pp. 229–248.

24 For detailed discussion on Grameen methodology, see Fugelsang, Andreas and Chandler, Dale (1993), op. cit.; Gibbons, S David and Kasim Sukor (1994), *Banking on the Rural Poor*. Dhaka: Grameen Bank.

25 The current Grameen loan delivery system is known as Grameen II which has replaced Grameen's previous system known as Grameen I or classic Grameen. For a discussion on the differences between the two, see Rutherford, Stuart; Maniruzzaman, Md; Sinha, S K; Acnabin & Co (2004), *Grameen II At the end of 2003: A 'grounded view' of how Grameen's new initiative is progressing in the villages*, MicroSave, Dhaka, Bangladesh.

- in delivering credit, priority has been increasingly assigned to women[26]
- the delivery system is geared to meet the diverse socio-economic development needs of the poor.

3. Borrowers are organized into small homogeneous groups.

Such characteristics facilitate group solidarity as well as participatory interaction. Organizing the primary groups of five members and federating them into centres has been the foundation of Grameen Bank's system. The emphasis from the very outset is to organisationally strengthen the Grameen clientele, so that they can acquire the capacity for planning and implementing micro level development decisions. The Centres are functionally linked to the Grameen Bank, whose field workers have to attend Centre meetings every week.

4. Special loan conditionalities which are particularly suitable for the poor.

These include:

- very small loans given without any collateral
- loans repayable in weekly instalments spread over a year
- eligibility for a subsequent loan depends upon repayment of first loan
- individual, self chosen, quick income generating activities (IGAs) which employ the skills that borrowers already posses
- close supervision of credit by the group as well as the bank staff
- stress on credit discipline and collective borrower responsibility or peer pressure
- special safeguards through compulsory and voluntary savings to minimise the risks that the poor confront
- transparency in all bank transactions most of which take place at centre meetings.

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26 Realising that the women are particularly vulnerable, and at the same time careful investors with high repayment rates, Grameen has moved gradually towards lending mainly to women. See Khawari, Aliya (2004), "Microfinance: Does it hold its promises? A survey of recent literature", HWWA Discussion Paper, Hamburg Institute of International Economics, Hamburgisches, p. 10.

5. Simultaneous undertaking of a social development agenda addressing basic needs of the clientele.

This helps to:

- raise social and political consciousness of the newly organized groups
- focus increasingly on women from the poorest households, whose urge for survival has a far greater bearing on the development of the family
- encourage their monitoring of social and physical infrastructure projects - housing, sanitation, drinking water, education, family planning, environment, etc.

6. Design and development of organization and management systems capable of delivering programme resources to targeted clientele.

The system has evolved gradually through a structured learning process that involves trials, errors and continuous adjustments. A major requirement to operationalize the system is the special training needed for development of a highly motivated staff, so that the decision making and operational authority is gradually decentralized and administrative functions are delegated at the zonal levels downwards.

7. Expansion of loan portfolio to meet diverse development needs of the poor.

As the general credit programme gathers momentum and the borrowers become familiar with credit discipline, other loan programmes are introduced to meet growing social and economic development needs of the clientele. Besides housing, such programmes include:

- credit for building sanitary latrines
- credit for installation of tube-wells that supply drinking water and irrigation for kitchen gardens
- credit for seasonal cultivation to buy agricultural inputs
- loan for leasing equipment / machinery.

The underlying premise of Grameen is that, in order to emerge from poverty and remove themselves from the clutches of usurers and middlemen, landless peasants need access to credit, without which they cannot be expected to launch their own enterprises, however small these may be. In defiance of the traditional rural banking postulate whereby 'no collateral (in this case, land) means no credit', the Grameen Bank experiment set out to prove successfully that lending to the poor is not an impossible proposition; on the contrary, it gives landless peasants the opportunity to purchase their own tools, equipment, or other necessary means of production and embark on income-generating ventures which will allow them escape from the vicious cycle of 'low income, low savings, low investment, low income'. In other words, the banker's confidence rests upon the will and capacity of the borrowers to succeed in their undertakings.

The success of the Grameen philosophy of fostering an effective entrepreneurial culture among the very poor has been a notable success in Bangladesh. As a result, Grameen has been encouraged (and found itself with the resources) to expand beyond providing credit. Struck by the plight of self-employed handloom workers in Bangladesh, whose products were being marginalised by bigger-scale suppliers, Grameen stepped in with a scheme whereby they act as brokers for these individual producers, lending them a presence and clout on the international market they would otherwise lack.

2.1. The Yardstick

The basic features of a rights-based poverty reduction strategy are closely interrelated and it is very difficult to identify them separately to examine their relevance to a particular poverty reduction strategy. To constitute a yardstick for the purpose of the present article, I will select those features which correspond to some Grameen claims - these are: explicit recognition of national and international human rights normative framework, empowerment of the poor and poverty reduction based on the principles of non-discrimination and equality with specific attention to the needs of the extreme poor and the vulnerable.

Table B: Rights-based Query for Grameen Model

Issues	**Grameen claims**	**Rights-based query**
Rights	Credit is a human right.	• Is there any explicit recognition of national and international human rights normative framework? • Does it recognize interdependence of rights? • Is Grameen accountable?
Poverty	It has positive	• Is it based on the principles

Issues	Grameen claims	Rights-based query
reduction	economic impacts and reduces poverty.	of non-discrimination and equality? • Does it address the extreme poor and the vulnerable? • Does it reduce income poverty?
Empowerment	It has positive non-economic impacts (social benefits) and it empowers the poor.	• Do these social benefits help the poor to enhance their capabilities?

2.2 Rights-based assessment of the Grameen Model

2.2.1 Explicit Recognition of National and International Human Rights Normative Framework and Accountability

The Grameen intervention may have positive impacts on human rights, which will be discussed later in this section, but these impacts are, as I will argue, incidental. The Grameen model does not have any reference to national and international human rights normative framework. The concept of human rights is simply absent from Grameen's official literature. For example, the sixteen decisions of Grameen[27] address various socioeconomic and environmental issues including food, health, education, shelter, safe water and sanitation - but these issues has not been defined in terms of human rights. Grameen's method of action,[28] Grameen features,[29] Grameen manuals, and even the Grameen Bank's Annual Reports do not have any reference to human rights. The phrases 'human right' or 'rights' do not appear anywhere in Grameen Bank's Annual Report 2004.[30] Moreover, it does not have any reference to Millennium Development Goals. The Grameen's website refers to human rights only once to

27 Grameen Bank (2006), "The 16 decisions of Grameen Bank", Available online at: http://www.grameen-info.org/bank/the16.html, last visited 5 January 2006.

28 Grameen Bank (2002) "Method of Action", available online at: http://www.grameen-info.org/bank/moa.html, last visited 5 January 2006.

29 Yunus, Muhammad (2003), "What is Microcredit?" Available online at: http://www.grameen-info.org/mcredit/index.html, last visited 26 January 2007.

30 Grameen Bank (2004) *Grameen Bank Annual Report 2004*, Dhaka, Bangladesh.

mention Grameen's belief that credit should be accepted as a human right.[31]

Defining socioeconomic issues in terms of rights is one of the steps to be taken for a rights-based approach.[32] Stephen Marks states:

> "Issues of health, education, food, shelter, labor, vulnerability, marginalization, equity, gender, and similar matters are constant concerns of the development practitioner. The International Covenant on Economic, Social and Cultural Rights has formulated them all in normative terms. The challenge is to learn the similarities and differences in the understanding of these issues in the contexts of development planning and implementation, on the one hand, and human rights, on the other."

Thus, it is evident that the Grameen Bank is isolated from current development and human rights discourse. From Grameen's failure or unwillingness of defining socioeconomic issues in terms of rights, it can be said that Grameen does not fulfil the rights-based criterion of explicit recognition of national and international human rights normative framework.

Instead of establishing any direct link with human rights, it proposes credit as a human right. A human right is, by essence, unconditional. It is a right that every human being has, no matter what, an *ex ante* possession that cannot be negotiated. However, access to Grameen credit is always conditional and always negotiated through obligatory savings, repayment history, viability of business plan, etc. It is a contractual process that includes rights and imposes obligations on both parties. In doing so, Grameen not only isolates itself from the human rights regime, it also takes credit to a distant island where the inhabitants are entitled to only one right: right to credit.

The poor need not only credit; they have other priorities - food, health, education, and shelter. Defining one need in terms of human rights and leaving other priorities just as needs, and not as rights, hurts one of the cardinal principles of international human rights law, i.e., indivisibility and interdependence of rights.

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31 Yunus, Muhammad (2007), "What is Microcredit?"Available online at: http://www.grameen-info.org/bank/WhatisMicrocredit.htm, last visited 5 April 2007.

32 Marks, Stephen P. (2003) *The Human Rights Framework for Development*: Seven Approaches, François-Xavier Bagnoud Center for Health and Human Rights.

In his Nobel lecture, Professor Yunus says:

> ***Poverty is Denial of All Human Rights***
>
> Peace should be understood in a human way in a broad social, political and economic way. Peace is threatened by unjust economic, social and political order, absence of democracy, environmental degradation and absence of human rights.
>
> *Poverty is the absence of all human rights.* The frustrations, hostility and anger generated by abject poverty cannot sustain peace in any society. For building stable peace we must find ways to provide opportunities for people to live decent lives.[33] (italics mine)

Thus, Grameen sees poverty as a denial of all human rights and as the absence of all human rights. And Grameen intends to put poverty into museums through realization of 'right to credit' and other incidental realization of human rights that might ensue therefrom. Accepting poverty as a violation of human rights and leaving human rights out of sight in a poverty reduction strategy is deceptive. Since Grameen does not have any reference to universally accepted human rights norms except that Grameen proposed the 'right to credit', one might think poverty is a violation of the 'right to credit' and become suspicious about the real intention behind it. Or, it may well be another attempt to gain high moral ground to compete in the tough competition for scarce resources.[34]

Accountability derives from obligation and obligation derives from explicit recognition of national and international human rights normative framework. The Grameen model does not promote credit as a human right to accept legal or any obligation. This is evident from the fact that one of the features of Grameen credit is that it is not based on any collateral or legally enforceable contracts. It is based on "trust", not on legal procedures and system - in the case of a violation of this trust or if someone eligible to get credit is refused, Grameen cannot be held accountable. In fact, Grameen does not provide any accountability mechanism to its clients - if someone worsens his

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33 Yunus, Muhammad (2006), "We can put poverty into museums", Nobel lecture presented at the Nobel Peace Prize ceremony on Dec 10, 2006 in Oslo; for the full text of the lecture, see the Daily Star Vol. 5 No. 903, December 11, 2006.

34 Peter Uvin thinks, for many, rights talk in development gives moral ground to compete for scarce resources. See Uvin Peter (2006), *Human Rights and Development*, Kumarian Press, 2004, see especially, chapter 6: "A Rights-Based Approach to Development".

poverty situation investing Grameen credit or if a group of non-Grameen people are marginalized due to strong presence of Grameen, Grameen does not offer any remedy. Grameen does not consider its impacts on the welfare of non-participants who may be affected by direct spillovers and through general equilibrium impacts on prices.[35]

2.2.2 Social Benefits and Empowerment

The clients of Grameen and its clones are in a better position to enjoy some basic human rights better than ever. These include right to food, education, health and shelter. For example, a study finds that a 1 percent increase in cumulative disbursement to a woman increases the likelihood of school attendance of daughters by 1.9 percent and of sons by 2.8 percent.[36] Using the same data from this study researchers found that a 10-percent increase in disbursement to women increases the average arm circumference of daughters by 0.45 cm and of sons by 0.39 cm and increases the average height of daughters by 0.36 cm and of sons by 0.50 cm.[37]

Grameen does not supply family-planning services; still it increases the use of contraception. In identifying the reasons for this phenomenon, it has been argued that perhaps members vow to keep their families small, and loan officers may prefer members with few children because they believe that children increase default risk.[38] Another study[39] finds that Grameen does not affect contraception. There is an argument that social benefits from increased contraception are perhaps unquantifiable and such social benefits are probably

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35 For a brief discussion on socioeconomic impacts of Grameen, see Morduch, Jonathan (1999), "The role of subsidies in microfinance: evidence from the Grameen Bank" *Journal of Development Economics*, Vol. 60, 1999, pp. 229-248.

36 Pitt, M. M. and Khandker, S. R. (1998), "The impact of group-based credit programs on poor households in Bangladesh: does the gender of participants matter?" *the Journal of Political Economy*, Vol. 106. No. 5.

37 Khandker, S. R., and Pitt, M. (2003), *The Impact of Group-Based Credit on Poor Households: An Analysis of Panel Data from Bangladesh*, World Bank, Washington, D.C.

38 Latif, M.A. (1994), "Programme Impact on Current Contraception in Bangladesh" *Bangladesh Development Studies*, 22(1), pp. 27-61; Schuler, S.R., and Hashemi. S. M. (1994), "Credit Programs, Women's Empowerment, and Contraceptive Use in Rural Bangladesh" *Studies in Family Planning*, 25(2), pp. 65-76.

39 Pitt, M. M., and Khandker, S. R. (1996), "Household and Intrahousehold Impacts of the Grameen Bank and Similar Targeted Credit Programs in Bangladesh", Discussion Paper No. 320. Washington, D.C.: World Bank.

overstated.[40] However, on aggregate level, Grameen increases the demand of women for formal health care.[41] Indeed, Nanda claims that a given investment in microcredit has the same effect on the usage of formal health care as that same investment would have if used to establish of health clinics.[42]

It is sometimes assumed that microfinance has a special ability to empower women, but Johnson states:

> Microfinance, no more than any other intervention, is not blessed with the ability to right the power imbalances which result from inequalities in the way society treats men and women.[43]

Although microfinance often targets women and although women often use microfinance, product design rarely addresses gender-specific aspects of the use of financial services.[44] A very few microfinance programs have developed concrete ways to meet the distinct demands of poor women for saving services.[45] Otherwise, microfinance's success so far has been to supply production loans to women who run tiny businesses. Properly designed microfinance may help women to accumulate assets and thus to become more empowered to fulfil their gender specific responsibilities and to resist cultural patriarchy. Asset accumulation may help to empower women to resist oppression through a better fallback position outside of

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40 Pitt, M. M.; Khandker, S.R., McKernan, S. M.; and Latif, M. A. (1999), "Credit Programs for the Poor and Reproductive Behavior in Low-Income Countries: Are the Reported Causal Relationships the Result of Heterogeneity Bias?" *Demography, 36(1)*, pp. 1-21.

41 Nanda, P. (1999), "Women's Participation in Rural Credit Programmes in Bangladesh and Their Demand for Formal Health Care: Is There a Positive Impact?" Health Economics, 8, pp. 415-28.

42 Ibid.

43 Johnson, Susan (1999), "Gender and Microfinance: Guidelines for Good Practice", manuscript, p. 1.

44 Johnson, Susan and Kidder, Thalia (1999), "Globalization and gender: Dilemmas for microfinance organizations", *Small Enterprise Development*, Vol. 10, No. 3, pp. 4-15.

45 The ***SafeSave*** in Bangladesh and the ***Bank Rakyat Indonesia*** are often cited as the best saving services examples for poor women. These efforts are not gender-specific, but they do combine some of the strengths of informal and formal savings mechanisms. See Rutherford, Stuart (2000) *The Poor and Their Money*, Delhi: Oxford University Press; Robinson, Marguerite S. (1994), "Savings Mobilization and Microenterprise Finance: The Indonesian Experience" in Otero María and Elisabeth Rhyne (eds.) *The New World of Microenterprise Finance*, West Hartford: Kumarian, pp. 27-54.

marriage.[46]Savings may decrease the disadvantage of women in the market and may increase their bargaining power in the household.[47] The mere receipt of loans need not empower women financially or socially.[48] Some research suggests that expanding women's access to economic opportunities and resources does not always make them less vulnerable to domestic violence.[49] Kantor[50] and Dunn and Arbuckle[51] also find that increased success in business due to microfinance may reduce women's say in some household decisions.

Several studies have pointed out that women in credit programmes do not always retain full control over their loans, and that they may not be the managers of the funded enterprises.[52] Women do not necessarily benefit from loans disbursed in their names, especially when their growing need for cash to repay debts creates additional tension in the household. It is in this context, Goetz and Sen Gupta argued that such programmes are exploiting rather than empowering women. [53]

Grameen may be different from other traditional MFIs in this respect. Some aspects of Grameen's programme design aim to address this power imbalance. The Grameen model responds to women's responsibilities for market production and household reproduction

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46 Vonderlack, Rebecca M. and Schreiner, Mark (2002), "Women, Microfinance, and Savings: Lessons and Proposals" in *Development in Practice*, Vol. 12, No. 5, pp. 602-612.

47 Kabeer, Naila (2001), "Conflicts over Credit: Re-evaluating the Empowerment Potential of Loans to Women in Rural Bangladesh", *World Development*, Vol. 29, No. 1, pp. 63-84.

48 Johnson, Susan and Kidder, Thalia (1999), op. cit., at p. 6.

49 Schuler, Sidney Ruth, Hashemi, Syed M, and Badal, Shamsul Huda (1998), Men's violence against women in Bangladesh: undermined or exacerbated by microcredit programmes? in *Development in Practice*, Vol. 8, No. 2, pp. 148-157.

50 Kantor, Paula. (2000), *Are Economic Outcomes Enough? Incorporating Empowerment Outcomes into a Definition of Microenterprise Success: Evidence from India*, manuscript, University of Madison, Wisconsin.

51 Dunn, Elizabeth and J. Gordon Arbuckle, Jr. (2000), *The Impacts of Microcredit*: A Case Study from Peru, *Assessing the Impact of Microenterprise Services*, Washington, D.C.: United States Agency for International Development.

52 Rahman, Aminur (1999), *Women and microcredit in rural Bangladesh: Anthropological study of the rhetoric and realities of Grameen Bank lending*. Boulder, CO; Oxford: Westview Press.

53 Goetz, Anne Marie and Gupta, Rina Sen (1996), "Who Takes the Credit? Gender, Power, and Control over Loan Use in Rural Credit Programs in Bangladesh", *World Development*, 24:1, pp. 45-63.

and also responds to issues of cultural patriarchy and domestic violence.[54] It allows women to maintain independent savings. This boosts their freedom and bargaining power within the household, and cushions the shock of divorce or abandonment. Grameen has a low drop-out rate which signals that average social benefits are positive.[55] Several qualitative studies[56] find that Grameen and/or its clones empower women. Professor Sachs observes:

> Perhaps more amazing than the stories of how microfinance was fueling small-scale businesses, were the women's attitudes to child rearing...Here was a group where the average number of children for these mothers was between one and two children...This social norm was new, a demonstration of a change of outlook and possibility so dramatic that Dr. Rosenfield [...] dwelt on it throughout the rest of his visit.... he remembered vividly the days when Bangladeshi rural women would typically have had six or seven children.[57] (bracketed omission mine, others original)

This positive influence of microfinance has been acknowledged in the UNDP Human Development Report:

> *Virtuous cycles and female agency.* Improved access to health and education for women, allied with expanded opportunities for employment and access to microcredit, has expanded choice and empowered women. While gender disparities still exist, women have become increasingly powerful catalysts for development,

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54 Kabeer, (2001), supra note 47.

55 Rahman, A. (1999), "Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?" in *World Development*, 27(1), pp. 67-82.

56 Amin, R. Becker, S. and Bayes, A. (1998), "NGO-Promoted Microcredit Programs and Women's Empowerment in Rural Bangladesh: Quantitative and Qualitative Evidence" in *Journal of Developing Areas*, 32(2), pp. 221-36; Hashemi, S.M., S. R. Schuler, and A.P. Riley (1996) "Rural Credit Programs and Women's Empowerment in Bangladesh" in *World Development*, 24(4), pp. 635-53; Larance, L.Y. (1998), "Building Social Capital From the Center: A Village-Level Investigation of Bangladesh's Grameen Bank", Center for Social Development Working Paper 98-4. Washington University in St. Louis.

57 Sachs, Jeffrey (2005) *The End of Poverty*, The Penguin Press, pp. 13-14; for similar views and acknowledgments, see Dunford, Christopher (2002) *Building Better Lives: Sustainable Integration of Microfinance with Education in Child Survival, Reproductive Health, and HIV/AIDS Prevention for the Poorest Entrepreneurs* in Sam Daley-Harris (ed.), Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families, Bloomfield, CT, USA: Kumarian Press, Inc., pp. 90-91.

> demanding greater control over fertility and birth spacing, education for their daughters and access to services.[58] (italics original).

These remarkable findings, together with Professor Sachs' earlier comment, indicate a change in outlook and possibility among microfinance clients. Grameen aims to change the social and economic structure of rural Bangladesh. To do this, it emphasizes on, in addition to financial discipline,[59] physical discipline: members must sit in straight rows, salute, chant, and sometimes do calisthenics.[60] The vows that members recite also instill discipline in that they foster a break from some social norms that perpetuate misery in rural Bangladesh. For example, the resolutions praise small families, prohibit dowry and child marriage, promote gardens, extol education, and exhort members to drink clean water and to use latrines. Perhaps the most important non-financial service of Grameen is social intermediation[61], creating social capital as a by-product of meetings. In rural Bangladesh, social capital is scarce because *purdah* norms isolate women. Grameen meetings provide a socially accepted excuse to gather and to talk. The impacts are both psychological and economic; not only do women feel less isolated, but they also strengthen their support networks beyond their kin groups.[62] They also offer women a chance to gather in public and to hear their first names spoken with respect.[63] "These findings suggest that the social implications of microcredit lending can be as powerful as - or even more powerful than - the economic implications."[64]

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58 UNDP (2005), *Human Development Report 2005*, p. 46.

59 For details on Grameen 'discipline', see Khandker et al. (1995), op. cit.

60 Hashemi, S.M. (1997), "Building up Capacity for Banking with the Poor: The Grameen Bank of Bangladesh" in H. Schneider (ed.) *Microfinance for the Poor?*, Paris: OECD, pp. 109-28.

61 Edgcomb, E., and L. Barton. (1998), *Social Intermediation and Microfinance Programs: A Literature Review*, Washington, D.C.: Development Alternatives, http://www.mip.org/pdfs/mbp/social.pdf, last visited 3 January 2003.

62 Larance, L.Y. (2001), "Fostering Social Capital through NGO Design: Grameen Bank Membership in Bangladesh" in *Journal of International Social Work*, 44(1), pp. 7-18 at 16; Larance, L.Y. (1998), "Building Social Capital From the Center: A Village-Level Investigation of Bangladesh's Grameen Bank", Center for Social Development Working Paper 98-4. Washington University in St. Louis.

63 There is another side of such empowerment: husbands sometimes beat their wives over conflicts related with Grameen, see Rahman, A. (1999), op. cit.; and Schuler et al. (1998), op. cit.

64 Larance (1998), supra note 62.

2.2.3. Economic Impacts

Many studies have affirmed the positive impacts of Grameen Bank in increasing incomes and asset ownership.[65] Two major statistically representative sample surveys confirming the micro-level findings may be mentioned here. The first one, undertaken in the mid-1980s by Mahabub Hossain,[66] reports that Grameen Bank had contributed to making member household incomes 43 per cent higher than control group incomes. The Bank had contributed to generating new employment for a fifth of its members and increased the average level of employment from 6 working days to 18 working days per month. Working capital for Grameen Bank supported enterprises of members was shown to have nearly a four-fold increase within about 2.25 years. About 87 per cent of members had reported making investments in housing, education and sanitation. Grameen had an economic impact in the community also. Through increasing employment and incomes of members, Grameen had a positive impact on agricultural wages. The average wage rate in Grameen villages was shown to have increased by 19 percent relative to non-Grameen villagers.

The second study was based on an intensive survey conducted by the World Bank in the early 1990s. The results indicate that, on an average, it takes about five years for programme participants to rise above the poverty line and about eight years to reach a situation where they do not require loans from targeted credit programmes. Targeted credit also helps increase assets, savings, and net worth of households. More importantly, by promoting a shift from land-based activities to non-traditional economic activities, targeted credit programmes promote productivity increases and employment generation in the rural economy. The study documents that because of Grameen, overall levels of employment increase, labour-force participation among women increases and self-employment increases.[67] A later impact assessment study suggests that microcredit programmes such as those of the Grameen Bank, BRAC have been found to be conducive to reducing the extent and depth of poverty

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65 Helen, Todd (1996), *Women at the Centre: Grameen Bank Borrowers after One Decade*, Dhaka, UPL.

66 Hossain, Mahabub (1988), "Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh", Research Report 55, Washington DC, International Food Policy Institute.

67 Khandker, et al. (1995), op. cit.

and have managed to sustain household welfare on a longer-term basis.[68]

Pitt and Khandker found that annual household expenditure increased by US$18 for each additional US$100 of cumulative disbursement. They also found that non-land assets of women increased by US$27 for each additional US$100 of cumulative disbursement.[69] Khandker et al. (1998) find that the presence of a Grameen branch increases the average wage in a village by 14 percent and increases production per household by 50 percent.[70]Using the same data, McKernan finds that participation in Grameen increases average monthly profits from self-employment from about $45 to about $80.[71]

Thus for example, moderate poverty has been found to be appreciably lower (62 per cent) among Grameen Bank members than among non-members who fulfil the eligibility criteria (72 per cent) [72]. In addition, in villages not covered by any credit programmes, moderate poverty is found to be higher among those who are eligible (66 per cent) for microcredit programmes.[73]

In spite of these encouraging trends, no significant variation has been observed in the incidence of poverty between members and those fulfilling eligibility criteria in villages not covered by credit programmes, the headcount ratio for extreme poverty among eligible

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68 Mustafa, S. et al. (1995), *Beacon of Hope: An Impact Assessment Study of BRAC's Rural Development Programme*, Dhaka, BRAC, (unpublished).

69 Pitt, M. M. and Khandker, S. R. (1998), op. cit.

70 This result is contested, see Sharma, M.; and M. Zeller (1999), Placement and Outreach of Group-Based Credit Organizations: The Cases of ASA, BRAC and PROSHIKA in Bangladesh" in *World Development*, 27(12), pp. 2123-36; Ravallion, M.; and Q. Wodon (1997), "Banking on the Poor? Branch Placement and Non-farm Rural Development in Bangladesh" in *Review of Development Economics*, 4(2), pp. 121-39.

71 McKernan, S. M. (2002), "The Impact of Micro-Credit Programs on Self-Employment Profits: Do Non-Credit Program Aspects Matter?" in *Review of Economics and Statistics*, 84(1), pp. 93-115.

72 The criteria to be fulfilled in order to be eligible for loans at entry point include: landownership not exceeding 0.5 acres of cultivable land; value of assets not exceeding the value of medium quality land; main occupation is wage labour; must belong to a group.

73 Khandker, S. R. and O.H. Chowdhury (1996), "Target Credit Programmes and Rural Poverty in Bangladesh", World Bank Discussion Paper No. 336.

non-members in villages covered by Grameen Bank stands at 17, which is very high compared to all other groups.[74]

This confirms other findings[75] that point out that microcredit programmes in general, have not been successful in reaching the poorest of the poor. Thus microcredit's story has been described as a story of 'microsuccess' in increasing incomes and economic welfare of the clients but 'macro-failure' in reducing the overall poverty situation.[76]

2.2.4. Non-discrimination and Equality and Provisions for the Vulnerable

The Grameen model does not require subsidy now. However, some of its clones in Bangladesh, and most MFIs worldwide, rely on subsidies - some hugely and some partly. The MFIs that require huge subsidies are described as unsustainable. Again, even Grameen may need subsidy if it targets the extreme poor. Therefore, to retain sustainability, there is a trend among MFIs to reduce amount of subsidy. They do it through programme design and such programme design, as I will argue in this section, is not based on twin principles of non-discrimination and equality.

The subsidy issues are closely related to sustainability of microcredit programmes. Hashemi examines sustainability of microcredit programmes at different levels: member level, branch level and programme level.[77] He suggests that sustainability at the member level is linked to multiple income and employment-generating sources with the help of microcredit. Unless microcredit increases the income level and the well-being of the target beneficiaries, its sustainability would be in jeopardy. With regard to branch and programme level sustainability, he feels that microcredit programmes should adopt a system of monitoring levels of subsidy so that they could gradually reduce and eventually eliminate subsidy.[78]

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74 Khandker, S. R. (2005), "Microfinance and Poverty: Evidence Using Panel Data from Bangladesh" in *The World Bank Economic Review*, Vol. 19, No. 2, pp. 263–286. Khandker, S. R.; and Pitt, M. (2003), op. cit.

75 Hashemi, S. M., Schuler, S. (1997), op. cit.

76 Hossain, Mahabub (1988), op. cit.; Khandker et al. (1995), op. cit.

77 Hashemi, S. M. (2000), "Microcredit in Rural Development: Beyond Safety Netting to Poverty Alleviation" in CIRDAP, *Fighting Poverty with Microfinance*, CIRDAP, Dhaka.

78 Ibid.

There are complementarities between clients' and institutional sustainability. For example, MFIs that serve a large number of clients may achieve economies of scale that contribute to their sustainability. But there may also be trade-offs. If MFIs try to serve very poor clients, i.e., improve their depth of outreach and impact on the poor, average loans and savings deposits will be small and costs will be high, so sustainability may be difficult to achieve.[79] This has prompted some analysts to fear mission drift,[80] because MFIs that strive for sustainability may avoid serving poorer clients. The objective of institutional sustainability is one of the most fundamental changes in the paradigm shift from directed agricultural credit to market-oriented microfinance. While this objective is difficult to achieve, there are a few highly successful "flagship" institutions. For example, the *unit desa* system of Bank Rakyat Indonesia (BRI) serves several millions of rural clients and has been so successful that each year the equivalent of millions of dollars in profits and surplus funds are transferred to bank headquarters to finance urban operations.[81] BancoSol in Bolivia is an example of an NGO that successfully converted itself into a specialized bank for the poor and currently manages a portfolio of over US$ 75 million. Nevertheless, less than one percent of all MFIs have reached the ability to cover all costs and mobilize funds on a commercial basis. That is one reason why some MFIs are beginning to mobilize voluntary savings aggressively rather than rely exclusively on donors or government funds. Some are experimenting with leasing, insurance, and other financial services to attract more clients and increase revenues. The intention is that by offering more services desired by the poor, MFIs will also contribute more to poverty alleviation.

Every microcredit programme faces severe problems and dangers. The most crucial and recurring problem a microcredit programme faces is the problem of the default of repayment. Although Grameen and some of its clones have been able to keep their repayment rate

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79 Conning, J. (1999), "Outreach, Sustainability and Leverage in Monitored and Peer-monitored Lending" in *Journal of Development Economics* 60, pp. 51-77.

80 Hulme, D. and P. Mosley. (1996), *Finance against Poverty*. Volume 1. Routledge, London.

81 Parhusip, Uben and H. Dieter Seibel (2000), "Microfinance in Indonesia: Experiments" in Linkage and Policy Reform in J. Remenyi and M. Quiñones, Jr. (eds.), *Microfinance and Poverty Alleviation: Case Studies from Asia and the Pacific*, Pinter, New York, pp. 153-179.

satisfactory, a significant number of organisations in Bangladesh could not. Increase in default rate means increased subsidy, increased subsidy makes an MFI unsustainable. There are various institutional, non-institutional, geo-environmental and market related reasons behind default. It is pertinent to briefly examine the most common reasons[82] behind default to understand why MFIs deliberately exclude certain groups of people from being their clients.

Institutional and market related factors: Among the institutional factors, short time for group formation, lack of staff efficiency and skill, irregular group functioning, high credit ceiling, competition among NGOs to reach clients are important.

A period of 3-4 months is allowed to form 15-18 groups with 5-25 group members. The field worker gets 90-120 working days to make an assessment of 300-360 group members, that is, he has to cover 3-4 members per day. This allotted time is often too short for the proper formation of groups. The field workers are found to make haste and form groups without proper assessment. Thus non-target members such as women from well-off families, minor/unmarried girls, old/permanently ill women, etc. are also included in the group. They do not or cannot conform to the rules of the group or implement income-generating activities.

Often the selection criteria and instructions put in the MFIs' manuals are not followed properly. As a result, non-target members are included. They include more than one member from the same household, members who are already clients to another MFI, floating members or members who do not have any permanent address, woman members having no experience in income-generating and totally dependent on their husbands and habitually idle people.

Extending loans to more than one member of the same family is a violation of the rules of the most MFIs. It becomes difficult for two members of the same family to implement two different projects. The loan amount ultimately lies with one person. As the amount becomes large, they face difficulty in paying the installments. Sometimes it happens that one client pays the installment, but the other makes default. Their attendance gradually becomes irregular, which deeply

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82 The reasons for default discussed here are collected from Proshika, ASA, BRAC and Grameen manuals.

influences the other members. Due to irregularity and lack of discipline, the environment of creating default emerges.

Being an important part of group functioning, attendance plays a vital role in the smooth operation of the group activities. Irregular attendance or absence from the group makes the group members isolated. The practice weakens mutual relationship among the fellow members creating adverse effect on group solidarity. The members who remain absent from the group meetings cannot be motivated on developmental issues. Due to ignorance and isolation proper implementation of the group objectives is hampered and they fail to generate the expected income. Thus lack of group feelings and income lead the irregular group members to become disinterested and disoriented in group activities. They do not hesitate to disobey the rules and regulations of the group and make default.

Sometimes the ceiling of credit is too high to manage in a proper way. The volume of interest rises with the volume of credit. As the clients cannot invest the total amount in IGAs, they spend the unutilized money for other non-productive purposes.

Due to limited facility of marketing in the local area the clients have to transport their produced goods to other areas, which is not cost-effective. Sometimes they sell their products at a lower price. They are deprived of fair price for their commodities. All these result in income decrease.

The market oriented factors are deeply rooted in governance matters. MFIs alone cannot resolve this problem. It requires government intervention and sound market strategies. Demand constraints are important issues that call for intelligent judgement of local absorptive capacity. This line of argument was advanced by Osmani.[83] Based on the experience of IRDP in India he argued that if programmes in Bangladesh were to massively expand their credit operations, the credit funded microenterprises would face demand constraints for their product.

The institutional default reasons are comparatively easy to resolve. This calls for a better financial portfolio management, adherence to financial discipline and reduction of the number of risky ventures. There is, therefore, a strong case for capacity building and skill

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83 Osmani, S. R. (1989), *Limits to the Alleviation of Poverty through Non Farm Credit*, Dhaka, The Bangladesh Development Studies.

upgradation of human resource development of the clientele and the project staff by undertaking series of training programmes. Grameen and its biggest clones like ASA, BRAC and Proshika seem to have overcome this hurdle.

Non-institutional and Geo-environmental reasons: Non-institutional reasons include lack of cooperation from family, less family income, family disorder, inability to invest loan, migrating tendency of the clients, natural calamities, etc.

The female members in the family are dependent on the male members. And socially there is a huge imbalance in decision making power. Less or no cooperation from the male members makes it impossible for them to implement IGAs. Without male members' help they cannot purchase raw materials or sell their goods in the market. When problems arise few or no family members stand by them. Sometimes husbands cannot tolerate empowerment of their wives and they willfully take away money.

Sometimes the group members who have no other earning member in the family cannot maintain the family with the profits from their IGAs only. After meeting the needs of the family, it becomes very difficult for them to pay the installments. Thus to cover the deficit they have to spend from the capital and then a moment comes when the project ceases to operate. They even sell manual labour, but with a very low wage they cannot cope with the situation.

Often the nature of utilization of credits plays an important role behind default. Lack of proper planning makes if difficult for group members to utilise the credit amount in a profitable way. Instead of utilising the money in IGAs, many clients spend money on unproductive things like marriage, family functions, treatment, etc. Most of the defaulters spend the money to meet regular family expenses. Sometimes, the credit amount is taken away by the husband and the wife fails to invest the amount in the IGA and generate income to make repayment.

Many members fail to generate income due to their inability to select a profitable IGA. Very often the clients are keen to get more than one loan disbursed by other NGOs. It increases the volume of credit amount and the number of installments. The landless poor, who are mostly women, do not have the capability to utilise a big amount in IGAs. Instead of investing the money they spend it in making payment for previous loans and meeting family expenditure. Some clients invest the amount in more than one project, but ultimately cannot control the capital. As a result, they fail to generate the expected income to repay. Many clients can not repay due to ill health.

Some group members who are temporary residents of the area migrate to another place. Their attendance in the group meeting is irregular. In some cases, they keep their intention concealed and suddenly leave the place. During natural calamities, employment opportunity in the area decreases. Especially, during floods, many of the group members leave the place and take shelter in other places where employment opportunity is available. They can neither attend the weekly meeting nor can they pay the installments.

In the lean season, particularly the two months preceding the harvesting season commonly known as *monga*,[84] rural poor families face acute scarcity. With the decrease of employment opportunity, income of the family also decreases. Due to difficulty in meeting family expenditure the group members find no other way than to spend the loan capital.

The most non-institutional reasons are inherent in poverty and the geo-environmental factors are reasons of poverty. Any attempt to exclude these clients to retain high recovery rate will be anti-poor. In fact MFIs will have to put their endeavor to tackle this deliberate exclusion of socially excluded, vulnerable and ultra poor people. This is where a right-based approach does not fit micro intervention.

Some of the main causes for this shortcoming include: self-exclusion of the poorest - the group self-selection process - location, because the very poor are often concentrated in difficult to access regions, which increases the credit delivery cost for the institution - attitude of the target beneficiaries, because in some areas that are highly vulnerable to ecological disasters, the poor have become dependent on humanitarian relief.[85]

The outreach of the MFIs is very limited. They deliberately target people who are less likely to default. People below the poverty line or extremely vulnerable groups are excluded as a part of the programme design. One of the basic problems of microcredit is hitting the right

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84 A local Bangla word used in the northern part of Bangladesh, it means seasonal famine.

85 See Figure V (A).

target. This is very important because many deserving people remain outside the microcredit programme.

In this aspect, the Grameen model is not different from other MFIs. The main shortcoming of the Grameen model is its calculated and deliberate exclusive participation method. To maintain cost-effectiveness[86] and sustainability Grameen and its clones cannot go below the poverty level. In other words it judges its prospective clients on the basis of their ability to repay. This approach is suitable for a commercial business oriented bank, but as a poverty alleviation tool this position is not tenable. Thus, despite good empowerment trends, the Grameen model of microfinance cannot be said to be a rights-based poverty reduction intervention. Grameen may empower those who participate in the process and all do not have the right to participate in the process.

The logic of microcredit – the 'ability' and the 'willingness' of the clients to repay the loan – dictates the screening and selection of beneficiaries. This is certainly discriminatory to the extreme poor. If microfinance is claimed to be a poverty alleviation tool, and at the same time, if it has to discriminate, by programme design, between poor and the extreme poor, it cannot be said that such a programme is based on equality.

Thus, an antipoverty program like Grameen, which is successful at reaching the poor, may exclude those most in need of assistance, the vulnerable poor. The forces that make some poor households vulnerable may also make them greater risks for microcredit providers and this may explain why microcredit programs are unsuccessful at reaching the vulnerable and marginalized poor.[87]

To try to ensure that credit does not go to less poor people, women from households with total assets worth more than the value of one acre of land are not permitted to join or to take loans. In Bangladesh, those with no land have not benefited from NGO-based rural finance.[88] In such a densely populated setting, imposing a ceiling of

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86 Schreiner, Mark (2001), "A Cost-Effectiveness Analysis of the Grameen Bank of Bangladesh" in *Journal of Microcredit*, June 2001.

87 Amin, Sajeda Rai, Ashok S. and Topaz, Giorgio (2001), "Does Microcredit Reach the Poor and Vulnerable? Evidence from Northern Bangladesh", Working Paper No. 28, Center for International Development at Harvard University.

88 Ibid.

one acre of land in order to prevent loans being allocated to better-off people does not necessarily mean that the poorest are included.

In an attempt to evaluate whether microcredit programs such as the popular Grameen Bank reach the relatively poor and vulnerable in two Bangladeshi villages,[89] researchers find that while it is successful at reaching the poor, it is less successful at reaching the vulnerable. Their results also suggest that it is unsuccessful at reaching the groups most prone to destitution, the vulnerable poor.[90] To add to this, Grameen's coverage in the areas largely populated by the indigenous people is very low. A subsidized MFI, Ashrai has started microfinance activities for this population.[91]

However, only 24.5% of the services of the microfinance institutions go towards the extremely poor.[92] Both demand and supply-side factors systematically exclude the extremely poor through a process of peer screening and self-exclusion. They do this because of the institutional interests of microfinance institutions. The extreme poor are more marginalized by the peer screening mechanism. A group comprises of five persons selected by the members themselves from among their peer group. This self selection serves as a screening and monitoring mechanism replacing the need for collateral and keeping transaction costs low. Hashemi and Morshed argue that this self selection screens out the non-poor in that the small loans and identification of the banks with the poor discourage the wealthier strata of the society from joining and also keep out those who would not be able to make repayments in that their peers can better judge who is reliable and who is not.[93] Schreiner and Morduch remark:

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89 They use a unique panel data set with monthly consumption and income data for 229 households before they received loans. See Amin, Sajeda; Rai, Ashok S.; and Topaz, Giorgio (2001), op. cit.

90 Copestake, J. (2002), "Inequality and the polarising impact of microcredit: evidence from Zambia's Copperbelt" in *Journal of International Development*, 14(6), pp. 743-55.

91 Matthews, Brett and Dr. Ahsan Ali (2002), "Ashrai: A Savings-Led Model for Fighting Poverty and Discrimination" in *Journal of Microfinance*, Volume 4, Number 2, 2002, pp. 247-60.

92 Hasan, Mohammed Emrul (2003), "Implications of Financial Innovations for the Poorest of the Poor in the Rural Area: Experience from Northern Bangladesh" in *Journal of Microfinance*, Vol. 5, No. 2, pp. 101-117.

93 Hashemi, S. M.; and Morshed, L. (1997), "Grameen Bank: A case study" in Wood, G. D. and Sharif, I. A. (eds.), *Who needs credit? Poverty and finance in*

> One purpose of joint-liability groups is to shift some of the work of screening and enforcement from the lender to the group. In the Third World, this means that group members are self-selected. Memberships tend to form among people who already know each other, and members screen-out bad risks because they do not want to repay the debts of their fellow group members. Furthermore, groups form among people who interact often outside the context of their microfinance loan because these links decrease the transaction costs of enforcement and increase. the effectiveness of social or economic sanctions in the event of delinquency.[94]

However, Grameen and its clones are reviewing their screening mechanism and taking new measure to avoid this discrimination. Grameen's goat-leasing programme and struggling members (beggar) programme[95] and BRAC's initiative of Income Generation for Vulnerable Group Development (IGVGD) Programme[96] are good examples of these innovations.

3. Towards a Rights-based Microfinance and Challenges

The Grameen model is widely considered one of the world's most successful microfinance models. Following Grameen's path, three NGOs in Bangladesh showed remarkable success: ASA, BRAC and Proshika. The expansion of NGO-managed credit in Bangladesh

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Bangladesh, Zed Books Ltd, London, pp. 217-230 at p. 220. See also Khawari, Aliya (2004), op. cit.

94 Schreiner, Mark and Jonathan Morduch (2001), *Replicating Microfinance in the United States: Opportunities and Challenges*, Washington University in St. Louis, p. 14. (manuscript).

95 Yunus, Muhammad (2005), *Grameen Bank's Struggling (Beggar) Members Programme*, Grameen Bank, Dhaka, available online at: http://www.grameen-info.org/bank/BeggerProgram.html, last visited 23 January 2007.

96 BRAC offers a development package of group formation, food aid, skill training, credit support, income-generating activities, mobilization of savings, supervision, monitoring and follow-up to ensure that the IGVGD group attains reasonable degree of socio-economic improvement. It may be noted here that the microcredit is neither the first nor the best intervention; it just starts with the food aid for the poorest of the poor. Skill training and capacity building in the livestock production, such as poultry, is undertaken. The sum of first loan of assistance for the IGVGD members is much smaller compared to the loan size of normal microcredit clientele. BRAC takes special steps to mainstream them, within two years, into its Rural Development Programmes (RDP). This gradual approach seems to be working well, which could be studied and replicated by other NGOs and other development agents.

attracted a flood of international aid to the country.[97] To some extent, Grameen and its clones in Bangladesh improved the human rights conditions of its clients. Reports of the success of the Grameen model have led to rapid growth in funding for microfinance.[98] In an effort to alleviate poverty, donors started supporting replication programs in numerous countries, including the United States. The International Fund for Agricultural Development (IFAD) of the United Nations was the first major supporter of the Grameen model and has subsequently assisted capacity-building in many replication programs.

The Philippines was one of the first countries to replicate the Grameen model on a large scale. The replication program was found donor funded and donor-driven. When Agricultural Credit Policy Council (ACPC) of the Philippines examined its experience with 27 replicators, there were mixed conclusions. The repayment performance was impressive, averaging a rate of 96.8%, but the overall picture was dismal. Internal resource mobilization appeared to be minimal. Interest rates were inadequate and administrative costs exorbitant, amounting to 47% of every peso lent and 170% of every peso saved. The operational self-sufficiency ratio averaged 0.24. Noting that 'excessive brokering of low-cost funds may discourage savings mobilization,' ACPC warned that 'any attempt ... to replicate or expand ... should be carried out with great caution.'[99] The replicators were not sustainable, nor did they reach a significant number of poor people, in a country with over 800 rural banks and 3,000 credit cooperatives.[100]

In 1996, the Asian and Pacific Development Centre (APDC), an intergovernmental body of Asian-Pacific countries based in Kuala Lumpur, carried out an assessment of MFIs in 11 of these countries, with the support of UNDP. Included in the study were seven donor funded MFIs from the Philippines, six of which used the Grameen technique. By the end of 1995, the situation of the sample replicators

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97 Rutherford, S. (1997), "Informal financial services in Dhaka's slums" in Wood, G. D.; and Sharif, I. A. (eds.), *Who needs credit? Poverty and finance in Bangladesh*, Zed Books Ltd, London, pp. 351-370.

98 Schreiner Mark (2003), op. cit.

99 Agricultural Credit Policy Council (ACPC) (1995), *An evaluation of the Grameen Bank replication project in the Philippines*. Manila: ACPC.

100 Seibel, H. D. (1998) "Grameen Replicators: Do They Reach the Poor, and are They Sustainable?", Paper presented at the Second Seminar on Development Finance, Frankfurt, Germany: IPC.

had improved generally, but the gap between good and poor performers had widened. Transaction costs per peso lent ranged from 0.19% to 1.30%, the operational self-sufficiency ratio from 0.08% to 1.34%, and the full financial self-sufficiency ratio (adjusted for subsidies received and for inflation) from 0.07% to 1.18%.[101]

Grameen's replications in the USA also failed to repeat its success. Arkansas's Good Faith Fund[102] is a symbol of this general failure. Good Faith Fund was a donor driven replication and relied heavily on external funds and failed disastrously.[103]

According to the limited evidence available, with the exception of a very few, Grameen replicators are unsustainable and consequently are unable to reach a significant number of poor people. It appears that the Grameen approach has no magic formula and no best practice or unique and optimal solution that may be applied around the world in order to alleviate poverty. Perhaps no such optimal solution or best practice ever existed, or may ever be found. The answer lies in social capital that Grameen model possesses. Social capital is defined here, in the context of microfinance, as the shared normative system of a group or an organization that shapes people's capacity to work together and produce results according to the group's or organization's purpose. The specific norms of a group or an organization are, in turn, rooted in the more general norms and values of a society or a sub-sector.[104]

Such social capital cannot be replicated; it needs to be achieved through a long process of commitment in broader social development goals and evolution. Grameen model shows the path only. Grameen model does not provide an optimal solution to the problem of how to

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101 Getubig, I.; Remenyi, J.; and Quiñones, B. (eds.) (1997), *Creating the Vision: Microfinancing the Poor in Asia-Pacific*, Kuala Lumpur: Asian and Pacific Development Centre; Quiñones, B.; Seibel, H. D.; and Llanto, G. M. (1999), *Social capital in microfinance: The case of the Philippines*. Kuala Lumpur: Asian and Pacific Development Centre.

102 The Good Faith Fund was founded in 1988 as a replication of Bangladesh's Grameen Bank. It was created under the supervision of Chicago's Shorebank Corporation and with funding from the Winthrop Rockefeller, MacArthur, Mott, and Ford Foundations. See Taub, R. P. (1998), op. cit.

103 Mondal, Wali I.; and Ruth Anne Tune (1993), "Replicating the Grameen Bank in North America: The Good Faith Fund Experience" in. Wahid, Abu N.M (ed.), *The Grameen Bank: Poverty Relief in Bangladesh*, Boulder: Westview, pp. 225-234.

104 Quiñones, B.; Seibel, H. D.; and Llanto, G. M. (1999), op. cit.

provide financial services to the poor to enhance their options and choices. There are certain good practices which essentially form an integral part of Grameen social capital:

- high moral commitment of leaders, based on values enforced through training;
- peer selection and peer enforcement, precluding adverse selection and moral hazard;
- credit discipline, including weekly installments, rigid insistence on timely repayment, and repeat loans of increasing amounts, contingent on repayment performance;
- deep integration with the clients based on the acquired local knowledge;
- flexibility to integrate other poverty and development issues like basic health, reproductive health, family planning, primary and adult education, child marriage, environment, etc.;
- local rural bank status;
- innovative approach to reach the ultra poor;
- deposit mobilization from the poor and non-poor through differentiated products with attractive interest rates;
- demand-driven, differentiated loan and insurance products which cover all costs and risks; and
- client differentiation through different-size loan and deposit products.

Thus, the donors were unmistakably wrong to think that Grameen and its clones' successes can be repeated regardless of geographic boundaries and economic, social, cultural and political differences in societies. In the early 1990s, Hulme cautioned that Grameen was not a blueprint but rather a source of broad lessons which must be adapted to local contexts.[105] Grameen Bank is not a formal bank. Its vision is banking for the poor and mission is to provide comprehensive financial services to empower the poor to realize their potential and break out of the vicious cycle of poverty.[106] In doing so the Bank has

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105 Hulme, D. (1990), op. cit.

106 Grameen Bank (2004), op. cit.

invented a unique idea of joint liability by peer pressure[107] which is deeply rooted in the local social and moral values. Being a client of Grameen one can feel it is his own bank. Professor Yunus felt the needs of the poor from the grass-roots and wanted to deliver for and by the people. Here, the Bank and the clients can entertain, which is also an important aspect of poverty reduction, ownership. By encouraging to replicate the model, the donors have seriously undermined the concept of ownership. It also discourages the evolution of local informal lending practices and development of other cooperative societies. Vinelli agues: "a 'one-size- fits-all' model discourages experimentation, innovation, and learning, an ironic fate for a movement that grew out of these values."[108]

At this point, the donors assumed that the only institutions capable in the long-run of reaching large numbers of poor people are those that mobilize their own resources and cover the costs from their income. From this assumption the donors became increasingly concerned about the viability and sustainability of the Grameen replicators.[109] The current donor emphasis on financial efficiency of MFIs is an outcome of this concern. The emergence of Grameen Bank and some of its clones in Bangladesh as prôfitable microlenders added an impetus to this emphasis.[110]

The donor-driven emphasis on financial efficiency encouraged MFIs worldwide to move from subsidy approach to market approach which can explain why the current microfinance intervention is

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107 Another trend of microfinance is emerging now which provides loan without any joint liability. See de Aghion, Beatriz Armendáriz; and Morduch, Jonathan (2000), *Microfinance beyond Group Lending, Princeton University.* (manuscript)

108 Vinelli, Andrés (2001), "Replicating Microfinance in the United States: Some Lessons from Developing Countries Concerning Financial Sustainability" in Carr, Jim, and Zhong Yi Tong (eds.), *Replicating Microfinance in the United States,* Washington, D.C.: Fannie Mae Foundation, chapter 5.

109 Seibel, H. D. and Torres, Dolores (1999), "Are Grameen Replications Sustainable, and Do They Reach the Poor? The Case of CARD Rural Bank in the Philippines" in *The Journal of Microfinance*, Vol. 1, No. 1, Fall 1999.

110 In 1995, Grameen Bank decided not to receive any more donor funds and the last installment of donor fund was received in 1998. GB does not see any need to take any donor money or even take loans from local or external sources in future. See http://www.grameen-info.org/bank/GBGlance.htm, last visited 23 March 2007.

mostly associated with income generation.[111] A market approach to microfinance sees poverty as economic deprivation. An over-simplistic notion of poverty is used, based on average annual income at a household level. Seasonal vulnerability, sudden shocks, and the social and power relations within and between households are omitted.[112] The competition is fierce in the market, and to achieve quick financial efficiency, the MFIs may impose exorbitant interest rates which will create a burden on the poor and consequently will have negative impacts on their realization of human rights. More importantly, when financial efficiency is the prime target, such target may deviate the MFIs from their main goal of extending credit in a systematic way to harness potential of the poorest of the poor. It involves a mission drift – more business oriented – more profit to sustain and to access commercial funds – less attention to social factors. This may lead to commercialization of microfinance programmes on the basis of trade-off between business and human rights.

However, Grameen and its successful clones did not change their aim to create social transformation alongside income generation.[113] They relied less on subsidy and at the sane time they increased their outreach to the poor with innovations and organizational skills. The success of Grameen and its clones as a strategic intervention for poverty alleviation and rural development has been described to demystify a 'false notion' created by the experience of green revolution and rural development programmes that rural development requires huge subsidies.[114] The quantity of subsidy may not be huge when microfinance programmes target the poor people. Nevertheless, one must remember what Amartya Sen said about

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111 Woller, G. (2002), "The Second Microfinance Revolution: Creating Customer Centered Microfinance Institutions", *Journal of International Development*, 14(3), (Special Issue), 305–324.

112 Mosley, P.; and Rock, J. (2004), "Microfinance, Labour Markets and Poverty in Africa: A Study of Six Institutions" in Mushtaque, A., Chowdhury, R., and Mosley, P. (eds.), *Journal of International Development*, Special Issue, The Social Impact of Microfinance, 16(3), pp. 467-500.

113 Khalily, M. B., M. O. Imam, and S. A. Khan. (2000), "Efficiency and Sustainability of Formal and Quasiformal Microfinance Programs – An Analysis of Grameen Bank and ASA" in Rahman, Rushidan I.; and Khandker, S. R. (eds.), *The Bangladesh Development Studies*, A Special Issue on Microfinance and Development: Emerging Issues 26 (June/September), pp. 103-46.

114 CIRDAP (1999), op. cit., at p. 6.

poverty index: one should be clear whether one's anti-poverty programme targets the poor who are 'just below' or 'far down below' the poverty line.[115] Thus, when such programmes are designed to target the people below the poverty line, quantity of subsidies may well increase. This is because at the entry level some sort of help in the form of humanitarian relief may be needed to assist the target group. However, some do not agree with the entry-level humanitarian relief:

> ...the microcredit is not a relief programme; nor is it a welfare measure. There are no 'free lunches' in microcredit programme. Those who avail themselves of microcredit must put it to productive use, reap the benefit and repay the loan along with interest. Only then will this become a sustainable programme.[116]

Microcredit is a strong tool of development and the core theme of current development paradigm is human welfare. Thus, the above argument goes against the ends of development. This is purely a market approach to microfinance and such microfinance programmes, though may continue to sustain for some period, will never be able to reach the people below poverty line. And the truth is: MFIs in developing countries are increasingly driven by commercial ideas[117]. In this context, it is highly unlikely they will assess their intervention in accordance to MDGs. Martin Greeley argues:

> At best, they will use some fairly loose 'social' criteria often borrowed from the corporate social responsibility literature; or they may refer, usually without precision, to a double bottom line of financial and social performance. These have little or nothing to do with achievement of the MDGs. [118]

The whole world of microfinance is divided into two approaches: the subsidy approach and the market or business approach. The subsidy approach targets very poor clients who are costly to serve and who thus may require on-going subsidies. The market approach targets less-poor clients who are less costly to serve and who thus may

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115 Sen, Amartya (1981), *Poverty and Famines: An Essay on Entitlement and Deprivation*, New Delhi, Oxford University Press.

116 CIRDAP (1999), op. cit., at p. 9; see also Subrahmanyam P. (2001), "Capacity Building and Empowerment of Women Self-Help Groups through Microcredit and Social Mobilization – An Overview" in CIRDAP (2001), *Towards Empowering Women: Micro Credit and Social Mobilization*, Dhaka, Bangladesh.

117 Greeley Martin (2006), "Microfinance Impact and The MDGs: The Challenge of Scaling-up", IDS Working Paper 255, Institute of Development Studies.

118 Ibid.

represent a profitable niche. The subsidy camp focuses on the poor rather than on the organization, while the market camp focuses on the organization rather than on the poor. Grameen's lesson is that trying to do both provides the best chance to achieve both. Grameen avoided the typical tragedy of development projects; the technical aspects are willing, but the implementing organization is weak. Grameen also avoided the for-profit flaw of ignoring the poor. In both cases, Grameen did this largely because it explicitly tried to. Institution building has no formula, aside from making it a conscious and continuous part of the strategic plan. The Grameen Bank and its successful clones in Bangladesh are in much better positions to undertake a rights-based approach. They have two-fold advantages: firstly they are financially sustainable, profitable and not externally funded. Accepting a rights-based approach will create financial pressure on them, as they will have to give priority to the extreme poor and vulnerable at additional cost. These MFIs have survived due to their organizational skills and innovative approaches. This innovativeness will help them to find new ways to include those who are now excluded. Secondly, they are already addressing various socio-economic issues, which are helping the poor in realizing their economic, social and cultural rights. Every year Grameen Bank staff evaluate their work and check whether the socio-economic situation of the members is improving. In doing so, the Grameen Bank evaluates poverty level of the borrowers using ten indicators[119] which can serve as effective benchmarks.

How Grameen sees poverty will be an important factor towards undertaking a rights-based approach. Grameen's current screening mechanism does not have any reference to human rights. Grameen's understanding of poverty must have reference to denial or violation or non-fulfillment of human rights. The socio-economic issues that Grameen wants to address should be translated into human rights terms.

Grameen needs an evaluation of its social impacts. One problem that Grameen will face is the absence of any mechanism by which it can assess its social impacts. In general all MFIs are facing this same

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119 Yunus, Muhammad (2006), *Ten Indicators to Assess Poverty level*, Dhaka, Grameen Bank. Available online at:
http://www.grameen-info.org/bank/tenindicators.htm, last visited 20 April 2007.

problem – inadequate poverty measurement tools and no social impact measurement tool at all.[120] It is not an easy task. It needs joint and concerted efforts of the MFIs and the donors. Such an evaluation would essentially consider the impacts on the human rights of the borrowers as well as on non-participants who may be affected by direct spillovers and through general equilibrium impacts on prices and other interest rates. The evaluation would also assess prospects for further cost reductions, as well as the development of new products (for example, more flexible savings accounts) that may enhance both the bank's financial bottom line and capabilities of the poor it serves.

A rights-based microfinance will ask for reaching the right people. If it is to be used as a rights-based poverty reduction tool, right people will mean the extreme poor, the vulnerable and the marginalized. These socially excluded groups may not fit a microfinance program from a market approach, but a rights-based approach cannot ignore them. Including these people into microfinance will challenge the financial satiability of an MFI and in this situation, a well designed combination of microcredit and humanitarian relief[121] may be required. This is another opportunity for the donors to reveal their human rights intentions.

So far, the donors involved in microfinance have failed to talk in human rights terms. For example, the World Bank launched the Consultative Group to Assist the Poor (CGAP) in 1995 to facilitate the microcredit program for the poor in the developing world. Almost all the prominent bilateral and multilateral donors have participation in the CGAP. The most common criterion used by the CGAP in measuring success of microcredit programs is loan repayment rate. Undoubtedly, loan repayment rate is very high as compared to commercial lending but this does not explain the qualitative impact of

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120 Copestake, J. (2002), "Horizontal Networks and Microfinance Impact Assessment: a Preliminary Appraisal." Brighton: Imp-Act working paper, available at www.Imp-Act.org; Copestake, J. G., Bhalotra, S., & Johnson, S. (2001), "Assessing the impact of microcredit on poverty: a Zambian case study". *Journal of Development Studies*, 37(4), pp. 81-100; Copestake, J., Johnson, S.; and Wright, K. E. (2002), "Impact Assessment of Microfinance: Towards a New Protocol for Collection and Analysis of Qualitative Data". Bath: Centre for Development Studies, University of Bath.

121 For discussion on models of microfinance combining microcredit and subsidies, see Rai, A. and T. Sjöström (2001), "Grants vs. Investment Subsidies", Harvard Center for International Development Working Paper.

such programs in terms of increasing income flows, levels of employment and sustainability of businesses. Since lenders are primarily concerned with repayment of loans, vital issues related to the quality and wider socio-economic impact of such loans have not been given due attention.[122] It provides guidelines both for donors and MFIs. Their guidelines do not have any reference to human rights.[123] Two issues have appeared in these guidelines very frequently: institutional sustainability and empowerment of women. Women's empowerment has been seen in terms of economic development with a narrow focus on credit and income-generation programs. A rights-based empowerment should include developmental and human rights components other than credit. Poverty, particularly that of women, cannot be defined only in terms of cash flow since it has strong linkages with human rights, inequitable distribution of resources, unequal power relations, illiteracy, lower wages, cuts in developmental spending and anti-poor macroeconomic policies that disproportionately affect the poor women.[124]

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122 This issue was raised by Professor Yunus long ago. See Yunus, Muhammad (1999), "How Donor Funds Could Better Reach and Support Grassroots Microcredit Programs Working Towards the Microcredit Summit's Goal and Core Themes", a paper prepared for the Microcredit Summit Meeting of Councils in Abidjan, Côte d'Ivoire, 24-26 June 1999.

123 See for example, CGAP (2006), *Good Practice Guidelines for Funders of Microfinance: Microfinance Consensus Guidelines*, October 2006, 2nd Edition, CGAP, World Bank; Christen, Robert Peck, Timothy R. Lyman and Richard Rosenberg (2003), *Microfinance Consensus Guidelines*, CGAP/The World Bank Group, Washington, D.C.

124 See Table C.

Table C: Changing Perceptions of Poverty and Microfinance[1]

Poverty	Finance	Expected Results of Finance	Outcome	Donor's Perspective
Narrow view: Income/consumption Assets	**Single role:** Small production loans for survival	**Production and investment:** Virtuous circle of investment, production, income, consumption, savings, and investment	**Economic growth**	**Subsidy**
Broad view: Income/consumption Assets Vulnerability Health Education Voicelessness Powerlessness Food insecurity Environment	**Multiple roles:** Loans for wider uses, leasing, savings, insurance, payment/money transfer, and financial intermediation	**Multiple results:** Virtuous circle of investment, production, income, consumption, savings, and investment Consumption smoothing (food security) Capacity to bear risk Empowerment Education Health Nutrition Child care Environment Contraceptive use and other economic and social impacts	**Human development**	**Good social investment**

[1] Based on Meyer, Richard L (2001) *Microfinance, Poverty Alleviation, and Improving Food Security: Implications for India, Rural Finance Program* The Ohio State University, Columbus.