Microcredit Strategies and Funding: Lending to Sustainable Development?

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Abstract

Microcredit, the provision of small loans to the poor who otherwise lack access to formal financial resources, is a development approach that has gained increased attention in the past two decades. Microcredit activities have attracted funding and strategic support from even premier multi- and bilateral assistance organizations. Due to the small size of loans and the typical fungibility of microenterprise resources with household resources among poor families, microcredit approaches bear particular impact upon poor households. Taking advantage of the close link between microcredit activities and borrower households, many programs also link the provision of credit access to compliance with other social measures. By analyzing some of the predominate paths of funding and support as well as the effects of microcredit and additional social provisions on borrower households, this paper aims to assess these policies in terms of their effects on human and social capital development. The findings suggest that, while microcredit has been shown a good tool for successfully promoting positive economic effects upon borrower households, the social provisions attached to credit access in some popular approaches do not always contribute to a sustainable path of human and social capital development.
Microcredit Strategies and Funding: Lending to Sustainable Development?

I. Introduction

In the past two decades, microcredit, the provision of small loans to the poor who otherwise lack access to formal financial resources, has been the product of remarkably increased consideration as a development tool with significant potential for aiding poverty alleviation.¹ The 1997 Microcredit Summit, convened in Washington, DC, attracted a high level of attention from a range of actors in the development field. These included governments, non-governmental organizations (NGOs), bilateral and multilateral assistance organizations, existing microfinance institutions, private donors, and media, among others. This summit was both the product of the previous decade of rapidly increased microcredit outreach and the initiator of greater enthusiasm by setting concrete goals to further expand credit access to the poor.² Some microfinance institutions or organizations, including the often-cited ACCION International in Latin America, Grameen Bank in Bangladesh, and Bangladesh Rural Advancement Committee (BRAC), have been providing credit since the mid-1970s or early 1980s. Only in the last decade or so, however, has the popularity of microcredit as a development approach attracted significant energy and resources from high profile donors. Among these donors are governments, through the support of bilateral development agencies, as well as multilateral sources such as the United Nations (UN), the World Bank, regional development banks, and international NGOs.

'Give a man a fish, feed him for a day. Teach a man to fish, feed him for a lifetime.' Microcredit services are targeted to the poor³ who, because of the expense of small transactions or because they lack collateral, literacy or other requirements, do not have access to the financial services provided by formal banks and other formal financial institutions. This paper will aim to

¹We are grateful for the comments received from Damian Von Stauffenberg.
²While microcredit is not a new idea in development, approaches to providing credit access to the poor have shifted from a subsidized credit, welfare mentality in the 1960s and 70s to the promotion of sustainable programs, eventually self-financing, by successfully lending to the poor at commercial interest rates. NGOs began especially targeting women with new types of income generating activities after attention generated by the United Nations World Conference of the International Women's Year at Mexico City in 1975 to start off the United Nations Decade for Women, 1976-1985. Some of the studies addressing this issue include Woller and Warner Woodworth (2001), Rakowski (1994), pp. 43-46, and Fuglesang and Chandler (1993).
³The concrete goals set at the time can be found in Microcredit Summit Declaration and Plan of Action (1997).

The “poor” are generally identified as those persons living below the poverty line established by a country and the "poorest" or "very poor" are those at the bottom 50% of that group. These definitions, cited in the Microcredit Summit Declaration, have been determined by the Policy Advisory Group of the Consultative Group to Assist the Poorest (CGAP).
examine whether those approaches to microcredit predominantly supported by major donor and or consultative institutions contribute to strengthening the family as an essential factor for sustainable development.

The lack of economic opportunity caused in part by the lack of access to credit and formal financial services is a serious hindrance to initiatives made by the poor to improve their quality of life. By supporting their own initiatives, microcredit provides a means of helping to give the poor an opportunity to help themselves and their families while potentially gaining both economic and personal development in the process. Thus it becomes a valuable source for generating human and social capital.\(^4\) Rather than temporarily providing poor persons with donor- or government-dependent (material) capital at subsidized interest rates, sustainable microcredit institutions, as distinct from social welfare institutions, successfully loan to the poor at sustainable commercial interest rates. While only relatively few microcredit institutions are currently viable, i.e. not heavily donor-dependent, the state-of-the-art emphasis among those in the field is a push to reach wide-scale institutional sustainability and sound business practices. To this end, in 1995, the Consultative Group to Assist the Poorest (CGAP) was established as a consortium of bilateral and multilateral donor agencies organized to promote mainstreaming microfinance as a development tool. CGAP provides technical support and capacity building to expand the outreach and sustainability of microfinance institutions.\(^5\) Similarly, to mention a few, the coordinated effort of the UN Development Program (UNDP) and the UN Capital Development Fund (UNCDF) in 1997 to begin the Special Unit for Microfinance (SUM) and MicroStart Program, the Inter-American Development Bank's (IBD) implemented Microenterprise Development Strategy in 1997, and USAID's Microenterprise Innovation Project (MIP) all reflect the growing efforts among institutions to mainstream sustainable microfinance as a wide-reaching development tool for the poor.

\(^4\) Social capital has been defined in several ways, but one definition that encompasses most of these is, "an instantiated informal norm that promotes cooperation between two or more individuals. These norms can range from a norm of reciprocity between two friends all the way to complex and elaborately articulated doctrines like Christianity and Confucianism." Fukuyama (2000), 3. Human capital is generally understood as the physical and technical efficiency of the population. A clear presentation of social capital can be found in Fukuyama (2000) and a clear understanding of human capital and the family can be found in Becker (1991). From Aguirre, Maria Sophia & Ann Wolfram (2002), p. 115.

As previously mentioned, microcredit programs seek to target the poor. In developing countries, this poorest group without access to formal economic opportunities often includes mainly women rather than men. As a result, many microcredit institutions and donors seek to concentrate lending primarily toward women borrowers. As both a manifestation and reinforcement of this widespread approach, the Microcredit Summit Plan of Action cites as its primary goal, "reaching 100 million of the world's poorest families, especially women, with credit for self-employment and other financial and business services by 2005." [Emphasis added]

Stable families are particularly relevant for society because healthy families are essential for the development of human and social capital. There is today a large body of scientific evidence that shows all human beings best develop within a functional family, i.e. with a biological or adoptive mother and father in a stable marriage. Corresponding empirical evidence shows that when the family is disrupted the individual and social costs are very large. Therefore, it is important that all tools of economic development, including microcredit, promote rather than undermine this fundamental institution of society.

The relevant development question arises, how does targeting women in particular to receive microcredit services affect the family as a whole - as "the natural and fundamental group unit of society entitled to protection by society and the state"? This is clearly not a new question as reaching ‘especially women’ is distinctly mentioned in the Microcredit Summit goal of expanding microcredit services to the poorest families. Microcredit impact studies have shown that resources in the hands of women are more likely to be used for the benefit of the

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6 Microcredit Summit Declaration and Plan of Action (1997), n. 10.
8 This issue of the family in development is addressed in further detail in a later section of the paper, but at this point it is worthwhile to note that in spite of the large body of literature that underlines the importance of the family, the approach to economic development taken by the United Nations documents in the last three decades has threatened the family as a fundamental organic unit of society. In addition to the previously referred bibliography in footnote n. 8, see American Medical Association (1992), Bisnaire et al (1990), Downey (1995), Fagan (2002), Fagan and Johnson (2002), Neighbors et al (1992), and Teachman et al (1998).
10 UNHCHR (1948). Article 16.3.
household than resources in the hands of men such that there are valid arguments that targeting microcredit to women borrowers more often results in the greater benefit of the whole family.

Many microcredit programs offer extra services beyond credit activities. In many cases, microcredit organizations require client participation in these non-business services in order to maintain credit access. These services are designed to meet social development objectives and often include education programs in nutrition, sanitation, childcare, and family planning. It is essential to evaluate the effects on the family attributable to microcredit services themselves as well as, where relevant, those services linked to credit.

Due largely to the local organization and varied structure of microcredit providers and the difficulty in tracking individual client or family effects, there does not exist one, systematic, and broad-scale impact evaluation of microcredit programs on borrowers and/or their families. Nevertheless, household impact studies have been successfully performed on a small number of microcredit programs, mostly in Bangladesh. From these limited impact studies and input from microcredit institutions, it does seem that microcredit, as an opportunity for granting the poor a means to improve their own lives, can foster positive benefits for the family. Family benefits have most often been measurable in terms of increases in household income and assets as well as positive changes in household consumption patterns. Using material capital from credit and increased profits facilitated through credit across a range of household activities, resourceful poor, especially women, have shown that access to microcredit services for the poor can be put to good use for their households.

While microcredit is not the answer to all the many and various problems faced by the poor, it can be a good tool with real potential for helping to lift the economic resources trap they face where lack of the necessary resources to qualify for services from formal financial institutions is foiled by lack of access to the financial services needed to help them access such resources. All the same, without denying the need for a holistic approach to poverty and acknowledging that lack of access to credit is not the sole problem faced by the poor, it is not necessary to assert that microcredit programs must be the source of all types of development services for the poor. Microcredit on its own can be used to help open doors of opportunity for

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11 Some of the studies supporting this evidence include Pitt and Khandker (1998) and Todd (1996).
12 Sebstad and Chen (1996) review 32 studies that evaluate the impact of microcredit on household economic security, enterprise stability and growth, and individual control over resources. The 32 studies include 41 programs.
the poor and their families and can even work together with the provision of social needs and services beyond financial and technical services without attaching them as a *sine qua non* to credit access.

The next section will briefly outline the ‘mechanics’ of prevalent approaches to providing microcredit services for the poor. This is followed by a survey of the paths of microcredit funding and services in order to analyze what types of credit programs are more commonly being supported and made available to the poor among major donor institutions. A final section considers the effects of microcredit approaches most often promoted by donor or consultative institutions as benefiting and/or undermining the family as the basic unit of societal interaction and sustainable human development.

**II. Approaches to Providing Microcredit Services**

Various approaches to providing credit access for the poor have been put into practice by different types of organizations in a variety of localities around the world. Different institutions, working in different environments with differing poverty conditions and enterprise opportunities, have fostered a number of working approaches for loaning to poor borrowers. In part a function of these differences in economic conditions, educational level, structure, available technology, and cultural context, no single method can or should realistically be advocated as the only answer for all types of borrowing situations. Nevertheless, various approaches and extra services adopted and implemented by individual institutions do affect individual borrowers and their families differently.

A key component to understanding the international spectrum of support for microcredit institutions and their implications for the family in development is a brief introduction to the more widely used approaches for making microcredit services available to the poor. This includes the structure and goals of credit provision, the provision or not of services beyond credit and technical assistance for the use of such credit, as well as the types of borrowers targeted.

**A. Solidarity Group Lending:** Solidarity group lending involves the formation of small groups among member borrowers for the collective assurance of loan repayment in place of

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in 24 countries in Asia, Africa, and Latin America. For the most part, these studies measure household benefits using the tools mentioned above.
material collateral. Both the Grameen Bank prototype and the Latin American solidarity group model are different variations of this method of microlending.

1. *Grameen Bank model:* The Grameen prototype is based on the lending model developed by the Grameen Bank in Bangladesh. The model was initiated by the bank’s founder, Muhammad Yunus, first as an experimental university project in 1976 and later as an established bank (with government support) in 1983. In this model, borrowers self-organize into small peer groups of five or so (unrelated) members who mutually guarantee repayment of each other’s loans. Repayment of each loan is required in order for all group members to maintain access to future loans. Peer groups are organized to form a village center where borrowers make loan repayments at mandatory weekly meetings. Usually, some pre-credit orientation is required though this includes only minimal technical assistance. Beyond administering loans, mandatory weekly meetings are used to promote discipline and to disseminate social services information. Typically, women, especially the poorest, are the targets of these programs (95% of Grameen borrowers are women). As a result of the Grameen Bank's fine-tuned implementation procedures, size of outreach, replication efforts and charismatic leadership, this method has become prevalent in Asia and, to a lesser degree, also in Africa. More recently, Grameen-type replicators have also begun to develop in Latin America. A few significant microcredit institutions using this approach include the Grameen Bank, BRAC in Bangladesh, Working Women's Forum in India, Association for Social Advancement (ASA) in Bangladesh, Kenya Rural Enterprise Program (K-REP) (which both finances local microcredit NGOs and provides its own programs using a modification of the Grameen methodology), and Pro Mujer in Bolivia (1990), Peru (1996), Nicaragua (2000), and Mexico.\(^\text{13}\)

2. *Latin American model:* Developed by ACCION International in Latin America and implemented by both local ACCION affiliates and other microfinance institutions, the Latin American solidarity group lending approach makes loans to individual borrowers organized into groups of less than ten. As in the Grameen model, borrowers guarantee group members' loans in place of traditional collateral. ACCION, originally a student-run volunteer organization in the 1960s and now a leading microfinance organization, began offering microcredit services in the

\(^{13}\) There is an extended body of literature that has studied the Grameen Bank model. A good review of the literature is found in Sustainable Banking with the Poor (SBP) (1998), and Otero and Rhyne (1994).
mid-1970s. These services most dramatically expanded between 1989 and 1995. Credit delivery is standardized and loans are normally used as working capital for microentrepreneurs including small traders or street vendors. Interest rates are normally higher than Grameen model loans because of organizational funding differences and greater initial emphasis on institutional self-sustainability. Borrowers receive minimal technical training and organizational assistance and loans are repaid weekly at program offices. Services are sometimes, but much less so than in the Grameen model, targeted towards women. ACCION affiliates average 52% women borrowers. Significant examples include BancoSol in Bolivia, Fundación para la Promocion y Desarrollo de la Microempresa (PRODEM) in Bolivia, Asociación Grupos Solidarios (AGS) in Colombia, as well as Genesis and PROSEM (Promoción y Servicios Empresariales) in Guatemala (all ACCION affiliates).

B. Individual Lending: This model provides credit access to individual borrowers who are selected on an individual, discretionary basis and often have at least some small form of fixed assets or income. Beneficiaries or clients of these types of institutions are generally microentrepreneurs in the informal sector - usually urban microentrepreneurs or small farmers. Borrowers are often provided with minimal technical assistance. Target groups vary between institutions. Noteworthy institutions offering this type of lending include, Bank Rayat in Indonesia (targeted to small farmers, this program was originally a subsidized rural credit program dominated by the state-owned banking sector in the 1970s and early 1980s, which, upon widespread loan defaulting, was alternately established as a commercially viable rural banking system in 1984), the Carvajal Foundation in Colombia, ADEMI in the Dominican Republic (an ACCION affiliate), Agence de credit pour l'Enterprise Privée (ACEP) in Sénégal, and the Self-Employed Women's Association (SEWA) in India, as well as Fondo Financiero Privado (FIE) and Caja los Andes in Bolivia.

C. Village Banking model: Village banks are established in relatively stable communities through the initial assistance of a sponsoring agency. The sponsoring agency lends seed capital to a newly organized bank composed from between ten to fifty self-selected members who collectively guarantee repayment of the amount. Members are originally granted

14 The above information on ACCION International is available online at http://www.accion.org/about_our_history.asp (accessed 6/19/02).
small loans from this initial capital, which is gradually increased through mandatory member savings. Size of future loans is granted in proportion to accumulated savings in the hopes of eventual borrower graduation from the program once a certain loan level has been reached. Member meetings are held for administrative or training purposes, or as a forum for social purposes. In this way, linked to the structure of savings and credit services, village bank programs also provide self-help groups and/or social education components. While village banks possess a relatively high degree of independence, sponsoring agencies provide extensive support for organizing and promoting the banks, training staff, leaders and members as well as for tracing progress. Village banking programs, mostly established since the late 1980s or early 1990s, generally target women (sometimes 100% of members) though, in a few institutions, men sometimes form a substantial proportion of members. Prevalent village bank providers include Foundation for International Community Assistance (FINCA) with programs in Central and South America, the Caribbean and Africa, Freedom From Hunger in Thailand, Burkina Faso, Bolivia, Mali and Ghana, Catholic Relief Services in Thailand and Benin, Save the Children in El Salvador, and CARE in Guatemala.  

D. **Credit Union model:** Credit unions, while varied in their institutional approaches, provide savings and loan services to members - usually low-income microentrepreneurs similar to those served by specialized microcredit programs. Savings are a prerequisite to loan access and incentives to save rest on a desire for low-cost loans. Credit unions rarely provide technical or training assistance or other additional services although literacy programs are commonly a service of African credit unions. They evaluate loan requests on clients' ability to repay the loan. Recognizing that microcredit requests often reflect a combination of family and microenterprise needs by the borrower, loans are not targeted or limited to specific goals or purposes. Thousands of individual credit unions, often affiliated with national or regional credit union leagues, exist in a variety of developing countries. Rotating Savings and Credit Associations (ROSCAs) are common in Africa.  

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17 For more details see SBP (1998), 85-86 and Otero & Rhyne (1994), 156-177.
18 Otero & Rhyne (1994), 140-151 provides more detailed information on the Credit Union model.
III. Paths of Microcredit Funding and Support

As briefly described earlier, since the late 1980s and 1990s, microcredit as a development tool has attracted an expansive amount of attention and support from premier multilateral and bilateral assistance agencies. In the early 1970s, attention first began to be drawn to the extent and importance of the informal sector in the economies of developing countries. As a result, micro- and small-scale enterprises began to gain the attention of multilateral and bilateral donor agencies including USAID (United States Agency for International Development), UN agencies, the Inter-American Development Bank (IDB), and the World Bank. Many governments, with the support of international donor funds, directed resources to the creation of subsidized rural credit programs. These programs, however, resulted in wide-scale failure for a number of reasons including a welfare mentality among clients, high costs, corruption, and natural disasters. Concurrently, private development organizations working to serve rural and urban poor in the 1960s and 1970s also began to perceive the lack of financial resources, in large part the lack of access to credit through the established banking sector, as a major obstacle to local income generating activities. Some developed specialized institutions with successful methods of providing credit and training programs for the poor in the informal sector and have since become leading microfinance institutions, which have taken a primary role in developing standardized, wide-reaching, and replicable techniques for the expansion of microcredit services to the poor. Figure 1 shows a proportional distribution of creation dates between 1960-1992 for 206 sample institutions studied by the World Bank. Clearly, the largest expansion of

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19 See Berger, (1995), 190. This was, in part, the result of a 1972 watershed report by the International Labour Organization (ILO) on the informal sector in Kenya. In the late 1970s USAID determined that 30% to 70% of the labor force in many developing countries worked in the informal sector. As a few isolated examples, studies from Kenya in 1991 showed that 43% of the labor force was employed in the informal sector. A 1998 USAID survey in Zimbabwe identified microenterprises employing approximately 25% of the total population. Research published in 1989 by economist Hernando de Soto found that in Peru 48% of the country's economically active population and just over 61% of all work hours drew from informal activity resulting in 39% of the national GDP flowing from poverty sector labor and trade - a figure that was predicted to continue rising. Studies supporting the mentioned findings include Woller (2001), Snow and Buss (2001) and Barnes (2001).

20 USAID, a source of bilateral assistance, is the official aid organization of the US government.


22 Otero (1994), 182-184. Two noteworthy examples, ACCION International and Fundacion Carvajal (Columbia) both originated in this way. The now highly successful Bank Rayat Indonesia originated as a government-sponsored rural credit program, which failed and in 1984 was converted to a viable rural banking system for small farmers with commercial interest rates. Although originating from a university experiment as a partially government-sponsored bank, in 1975 the Grameen Bank first established its microcredit program for rural poor in Bangladeshi villages lacking traditional collateral. Since then, Grameen Bank has replicated its refined methodology to expand outreach to 50% of rural villages in Bangladesh encompassing over 2.4 million borrowers in 2002 and, in addition to its own
Figure 1
Expansion of Microfinance Institutions
(Creation Year)

The Sample includes 206 institutions created between 1950-1992.

high profile international support, has become the prototype of many microcredit replicators garnering international donor assistance throughout Asia, in Africa, and, increasingly, in Latin America.

ACCION began in 1961 in Caracas, Venezuela as a volunteer effort led by an American law student to address community needs in the desperately poor urban areas. By the 1970s, ACCION had spread to Brazil, Peru, and Columbia and leaders began to recognize lack of economic opportunity as a major, long-term cause of the urban poverty they were attempting to alleviate. In 1973, a small microcredit program was organized in Brazil allowing small-scale entrepreneurs access to loan capital at commercial interest rates. The program was successful and over the following ten years ACCION helped start microcredit programs in fourteen Latin American countries with a 98% loan repayment rate and income from interest rates sufficient to cover lending costs. Between 1989 and 1995 ACCION's amount of loans in Latin American multiplied over twenty times. ACCION has expanded throughout Latin American and, significantly, in 1992 also founded BancoSol (Bolivia) - the first commercial bank in the world serving only microenterprise clients. In 2000 ACCION began limited efforts to further expand its microcredit techniques and outreach by offering technical assistance to microcredit institutions in Sub-Saharan Africa (Benin, Mozambique, South Africa, Uganda, Zimbabwe). (Information available online at http://www.accion.org/about_our_history.asp, accessed 6/19/02)

The Carvajal Foundation also originated in 1961 as a private foundation for social development and change in the poorest areas of Cali, Colombia. Recognizing the importance of small-scale enterprises, which generated 51% of the country's jobs in 1977, as more than a burden of unfinished modernization (a 1997 Quality of Life survey found, an even greater percentage, 70% of the country's jobs), the Carvajal Foundation has from that year developed a program to support microentrepreneurs and a program to support small shopkeepers by providing unsubsidized credit along with technical business training. This still successful and well-respected program has since given impetus to the Columbian government's implementing of national policies in support of microenterprises as well as access to IDB and USAID funding meant for use in similar programs in other Colombian cities. For more details see Dávila (2001) and Akerman (2002).
institutions corresponds to the last twenty years (69%). As will be seen below, the number of microcredit institutions has continued to grow in the 90s, especially after 1995, when CGAP was established.

Since the vast majority of microcredit institutions are not actually able to self-finance the loan capital is needed to provide credit access to their clients or to expand their lending capacity to provide increased loans or reach a greater number of clients, most still rely significantly upon external funding. With the increased international development attention attracted by microcredit, this funding, beyond local sources, increasingly flows from country aid programs (such as USAID and European development agencies), United Nations programs (including UNDP, UNCDF, UNICEF, UNFPA, and UNIFEM as well as the UNDP-UNCDF Special Unit for Microfinance (SUM)) \(^{24}\), private development organizations (e.g. Ford Foundation), the Consultative Group to Assist the Poorest (CGAP), and multilateral development banks including both the World Bank and regional development banks (e.g. the IDB, Asian Development Bank, and African Development Bank). Implementing institutions at the local level (local NGOs, private development organizations, or governments) are thus supported and new institutions at the local level are formed with the aid of technical and financial support. As a result, major bilateral and multilateral donors, which provide resources for technical support, institutional capacity building, loan capital, budget shortfalls, and/or for intermediaries that facilitate direct lending to microcredit providers, can and have played an increasingly influential role in shaping the expanding direction of development in the microcredit field.\(^{25}\) The goals of these assistance institutions influence what types of approaches to and methodologies of providing microcredit are supported and implemented in developing countries. Rather than 'reinvent the wheel', many such donors promote the expansion of microcredit as a development tool by strengthening and seeking to expand or replicate already successful microcredit institutions. Such microcredit models or institutions have a proven history of providing microcredit services to large numbers

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\(^{24}\) UN Development Program (UNDP), UN Capital Development Fund (UNCDF), UN Children's Fund (UNICEF), UN Population Fund (UNFPA) and UN Development Fund for Women (UNIFEM).

of the poor on at least a somewhat sustainable basis. Thus, it is key to analyze what types of microcredit institutions are being promoted by major international assistance organizations and in what regions.

A. United Nations' Support for Microcredit

The United Nations supports microcredit as one aspect of a holistic approach to the general eradication of poverty. In doing so, it supports microcredit institutions and approaches that include the dissemination of additional information and services along with the provision of credit. Efforts are particularly focused on strengthening services in Africa.\textsuperscript{26} The UN points to the value of microcredit both as support for initiatives made by the poor themselves to improve their quality of life,

> Recognizing that people living in poverty are innately capable of working their way out of poverty with dignity, and can demonstrate creative potentials to improve their situation when an enabling environment and the right opportunities exist,\textsuperscript{27}

and as a tool for fostering the broader development of human and social capital in developing societies,

> Recognizing that microcredit programmes, in addition to their role in the eradication of poverty, have also been a contributing factor to the social and human development process.\textsuperscript{28}

More particular key benefits of microcredit for fostering development cited by the UN include, "the eradication of poverty, empowerment of women and social upliftment."\textsuperscript{29} The UN also welcomes the coordination of donor efforts including the goals set by the 1997 Microcredit Summit Declaration and Plan of Action, particularly, "to reach 100 million of the world's poorest families, especially women of those families, with credit for self-employment and other financial and business services, by the year 2005."\textsuperscript{30} While UN support for microcredit tends to provide

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\textsuperscript{27} \textit{Role of Microcredit in the Eradication of Poverty} (1997), General Assembly resolution, Introduction.

\textsuperscript{28} \textit{Role of Microcredit in the Eradication of Poverty} (1997), General Assembly resolution, Introduction.

\textsuperscript{29} \textit{Role of Microcredit in the Eradication of Poverty} (1997), General Assembly resolution, 1.

\textsuperscript{30} \textit{Role of Microcredit in the Eradication of Poverty} (1997), General Assembly resolution, 2.
only limited financial resources, UN agencies play an important consultative assistance role in promoting both the strengthening of 'fledgling' microcredit institutions and the expanding scale of successful models, such as the Grameen Bank prototype, that include social services with the provision of credit.\textsuperscript{31} The UN also notes that the most extensive development of microcredit programs has occurred in Asia, to some degree in Latin America, and much less so in Africa. It cites particularly the peer-group monitoring and compulsory weekly meetings of the Grameen Bank method as not only effective strategies for repayment but also means to disseminate additional social information. In keeping with the mandates given by the 1995 World Summit for Social Development and the current UN Decade for the Eradication of Poverty, the UN supports microcredit particularly for the most disadvantaged sectors of society such that "special attention is given to Africa and to the advancement of women."\textsuperscript{32}

It is with these goals in mind that many UN agencies support microcredit activities thus influencing the nature and role of microcredit for development in accord with these aims in Asia and in Africa where, in many localities, microcredit is only beginning to take shape. Support by UN agencies for microcredit activities has, in recent years, increasingly come under the leadership of UNDP. Though, as mentioned, provision of actual financial resources is limited, in 1997 the UNDP teamed up with UNCDF to create the Special Unit for Microfinance (SUM). SUM began as a joint program between the two agencies bringing together UNDP's growing work in the field of microfinance with the established credit and microfinance portfolio of UNCDF. UNCDF microfinance activities include an active US$40 million portfolio implemented through largely state-owned financial institutions, credit unions and NGOs of which 70% are in Africa, 20% in Asia, and 10% in Latin America. SUM supports both these UNCDF activities and the UNDP MicroStart Program. The MicroStart Program, launched at the 1997 Microcredit Summit, is designed to assist "start-up and fledgling initiatives" to become

\textsuperscript{31} Role of Microcredit in the Eradication of Poverty (1997), Report of the Secretary General, 19-22,26-40. Point 31 of the Secretary-Generals' report makes the claim to the limited scope of UN financial resources for microcredit activities explaining that, in order to make optimum use of UN resources in light of declining Official Development Assistance, funds are unlikely to be allocated for what would be experimentation with a form of development.

\textsuperscript{32} Role of Microcredit in the Eradication of Poverty (1997), Report of the Secretary General, 42. See also the Report and Plan of Action of the World Summit for Social Development, (Copenhagen 1995) A/CONF.166/9, articles 3c, 9b-c, 12a, 12h, 31e-f, 34a, 83a, 91b-c for general support of microcredit activities, particularly to the most disadvantaged, in the eradicating of poverty. In addition, the Report of the Fourth World Conference on Women, (Beijing 1995) A/CONF.177/20 includes general support for microcredit available to women in articles 64-66, 83, 151, 169-172, 176. Point 171 includes specific endorsement of the Grameen Bank method, "By government
sustainable microfinance institutions. MicroStart, which as of early 2002 supported 68 microfinance institutions in 15 countries has mobilized just under US$50 million in resources since it’s beginning in 1997. These financial resources have come from support by corporations, UNDP regional offices, governments of developed countries, and UNCDF/SUM.

Further efforts are being made to expand the program to additional countries. Through December 2001, clients of the supported institutions had expanded from less than 130,000 to over 325,000 - significantly more than double the original outreach. Although the MicroStart Program focuses on the eventual goal of institutional self-sustainability, it plays a key foundational role by shaping the institutional basis and structure of new microcredit initiatives. Thus, although actual UN funding for microcredit activities through UNDP is limited through the available channel of UNCDF technical and financial resources and, as much or more so, through resources mobilized from private and government sources through the MicroStart Program, the United Nations can actually play a significant role in shaping the availability and outlook of microcredit institutions.

In addition to the leading role taken by UNDP through the capacity of UNCDF, many other UN agencies also support microcredit as a development tool. UNICEF, in particular, is not new to microcredit activities. UNICEF began providing early financial support both for BRAC and the Grameen Bank in Bangladesh in the early 1980s. UNICEF is the fourth largest donor to BRAC, which depends upon outside grants for 85% of its total budget and is the fourth largest donor to BRAC, which depends upon outside grants for 85% of its total budget.

and/or multilateral financial institutions: Review rules and procedures of formal national and international financial institutions that obstruct replication of the Grameen Bank prototype, which provides credit facilities to women."

34 UNCDF (2002).
35 Refer to p.14 and note 31 regarding the secretary general’s explanation of the limited scope of UN financial resources for microcredit activities.
36 UNICEF (2002) and based on the findings of a forthcoming study, Nigam (Forthcoming) and UNIFEM (1998).
37 Lovell (1992) 155-166 and Bhatt & Tang (2001), 321. BRAC’s 1991 annual budget totaled US$20 million of which only 15% was self-financed. From 1972-1990, BRAC received close to US$34million from international donors. UNICEF, a consistent donor since 1972, is BRAC’s fourth largest donor behind The Netherlands, Swiss, and German development agencies. SIDA, the Swedish development agency, has been BRAC’s fifth largest donor. UNCDF has also contributed US$1.4 million to BRAC for a cold storage plant.

Until recently, the Grameen Bank has also been heavily dependent on external donor resources. In 1989 the Grameen Bank depended upon foreign funds for 90.76% of its total funds although, in the last decade serious efforts have been taken to reduce this - by 1993 the Bank was dependent upon foreign sources for 58.12% of its funds and by 1994 this number had been lowered to 3.73%. By 1998 the bank had stopped receiving installments of donor funds and was set to fully finance (100%) outstanding loans from its own resources and deposits by January 2003. As of August 2002, the bank was 89% self-financed. This end of ongoing donor funds, however, is replaced by Grameen Kaylan – an endowment created from grant money given by donors, which will serve as a “revolving loan fund” for bank activities. Thus, while Grameen Bank will no longer rely on ongoing donor grants, its capacity for
programs that make the provision of credit an integral component of programs designed to broaden access to social information and services, particularly as affecting children and the 'empowerment' of poor women. This is accomplished by working with governments to either support or stimulate national support efforts for such programs and with NGOs. UNFPA supports programs combining the provision of reproductive health services with microcredit activities. Also, UNIFEM supports microcredit in Western Asia, Africa and Latin America as part of a broader agenda of women's empowerment. In Latin America, UNIFEM has worked in association with ACCION to gain private support for mainstreaming gender-sensitive microcredit institutions. In Africa, UNIFEM helped (along with K-REP and others) to found MICROFIN-AFRIC - a network of forty-five institutions that deliver microcredit to women in Sub-Saharan Africa.

Despite financial resources in support of microcredit not flowing in as large totals as other assistance organizations (e.g. the World Bank), the impact of UN development goals on microcredit policies clearly runs wide impacting the current and future shape of microcredit services in developing regions in Asia and also in Africa where microcredit is still in its beginning stages as a development tool for the poor.

B. The World Bank Group - Loans for Microenterprises

The World Bank first began supporting microenterprise activities as parts of small and medium enterprise loans in the late 1980s. Beginning in the early 1990s, however, loans for small and medium enterprises dropped off almost entirely and loans in support of microcredit activities rose dramatically. In most recent years the Bank has again begun to show interest in lending to support small and medium enterprises. Despite this slightly renewed interest in small or medium enterprises, however, World Bank poverty-related lending has increasingly been directed to lending for microenterprises since the early 1990s. Table 1 shows strongly

---

41 “Microenterprise” generally refers to ‘enterprises’ with fewer than 10 employees - often operating informally and/or with a self-employed owner and perhaps one or two employees. “Small enterprise” generally refers to an enterprise employing between 10 and 200. Webster (1996), 3.
42 ibid, ix,3.
43 ibid.
increased Bank support for projects including microfinance activities in 1991-1993, which was sustained through 1994-1997 and further increased between 1998-2000.

Between 1985 and 1993 the World Bank approved twenty-one social loans that included microenterprise components while between 1994 and 2000 it approved 479. The specifically microenterprise components of the 1985-1993 loans amounted to US$324 million, i.e., 46% of

<table>
<thead>
<tr>
<th>Year of Approval</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-1990</td>
<td>137.8</td>
</tr>
<tr>
<td>1991-1993</td>
<td>557.5</td>
</tr>
<tr>
<td>1994-1997</td>
<td>402.0</td>
</tr>
<tr>
<td>1998-2000</td>
<td>580.6</td>
</tr>
</tbody>
</table>


the US$703 million total provided by the twenty-one loans and almost 21% of the total approved for all social loans by the Bank between 1985 and 1993. Relative to the size of loans by typical World Bank macroeconomic standards, social loans and even more so their microcredit components are small. Nevertheless, a large number of microcredit programs in a large number of countries are involved in and affected by these loans. Table 2 reflects the increased lending for microenterprise activities since 1991. More importantly, it shows the regional distribution of microenterprise lending components in social loans approved from 1989 through 2000. The overwhelming numbers of the social loans were approved in Africa followed by Latin America and Asia. Most loans approved for Africa were particularly small in size though the relative number of loans to African countries was large. African loans constituted 57% of total microcredit lending provided by the World Bank (Table 3).

---

44 Webster (1996), 8-9,42-44.
As concerns regional distribution from 1994 to 1997, projects in Africa remained predominant accounting for 42% of all projects supporting microfinance activities and increased an additional 15% between 1998-2000. During the same time period, as shown in Table 3, the percentage of Bank projects in Asia rose significantly while the percentage of projects in Latin America and the Caribbean declined. The share of Europe, the Middle East, and Northern Africa remained stable.

Table 2
Microenterprise Credit Approved by the World Bank, 1989-2000
(Millions of USD)

<table>
<thead>
<tr>
<th>Year of Approval</th>
<th>Africa</th>
<th>Asia</th>
<th>EMENA*</th>
<th>LAC*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>7.4</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1990</td>
<td>17</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1991</td>
<td>1.6</td>
<td>35</td>
<td>0</td>
<td>6.8</td>
</tr>
<tr>
<td>1992</td>
<td>9.9</td>
<td>0</td>
<td>64</td>
<td>12</td>
</tr>
<tr>
<td>1993</td>
<td>17</td>
<td>0</td>
<td>0.4</td>
<td>155</td>
</tr>
<tr>
<td>1994</td>
<td>46</td>
<td>15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1995</td>
<td>34</td>
<td>17</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>1996</td>
<td>53</td>
<td>8</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>1997</td>
<td>53</td>
<td>14</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>1998</td>
<td>54</td>
<td>14</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>1999</td>
<td>55</td>
<td>4</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>2000</td>
<td>48</td>
<td>10</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>395</td>
<td>117</td>
<td>106</td>
<td>185</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>1991-93</th>
<th>1994-00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>57%</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>21%</td>
<td>26%</td>
</tr>
<tr>
<td>EMENA</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>LAC</td>
<td>24%</td>
<td>4%</td>
</tr>
</tbody>
</table>


Most World Bank lending for microcredit is administered to project management units, often within country governments, and channeled through intermediaries, mainly NGOs, to borrowers. Through lending, the Bank is generally able to support microcredit through poverty projects, industrial restructuring programs or private sector development. NGOs tend to be in the best position to reach the poor, mobilize local resources and populations, as well as deliver low cost additional services. If able local NGOs are in short supply, international NGOs may be used to help implement projects. Other institutions such as local chambers of commerce, local government agencies, development banks, or rural financial institutions are sometimes used as well.\(^{45}\) In addition to lending, Bank research projects are also important for shaping overall conceptions in the field of microfinance.

Generally, microcredit loan components have targeted rural poor in Africa, Asia and most recently, in Central Europe. Most of this support for microenterprise development has also been integrated into poverty alleviation loans that include numerous social welfare programs such that microenterprise programs are blended with social welfare services at the institutional level as well as conceptually often with little distinction between them.\(^{46}\)

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\(^{46}\) Webster (1996), 10,60 and World Bank (2001b).
Since the early to mid-1990s, microenterprise has become the primary development medium for income generation among the poor by the World Bank. In 1995, the Bank lent US$55.17 million in concessional funding\(^{47}\) to microcredit programs serving the very poor. With microfinance activities in just under 70 countries, in 1997 microcredit lending peaked to US$113.31 million and in 2000 it amounted to US$94.64 million.\(^{48}\)

C. **CGAP – Leading the Microfinance Industry Through Consultative Support Services**

The Consultative Group to Assist the Poorest (CGAP) was established as a consortium of donors in 1995. Housed in the World Bank but primarily the product of coordinated efforts from many donor agencies, CGAP was organized to mainstream microfinance as a development tool. Since 1995 it has played a major role in promoting the coordination of international donor efforts in the field of microfinance.

CGAP members include bilateral aid organizations from many of the developed countries, regional development banks, and other multilateral organizations. The Group receives expertise through an advisory group comprised of experts and leaders from many well-known microcredit organizations and lends technical assistance and limited funds to a variety of microcredit institutions. Although actual funds for providing assistance are limited to US$6-7 million per year (from 1995-2000 CGAP provided US$30,431,850 in support of microfinance institutions and US$4,979,044 for ‘industry’-wide support), CGAP fills an increasingly important role as a leader of increasing efforts to mainstream and commercialize microfinance on an ‘industry’-wide scale.\(^{49}\)

CGAP helps to strengthen microfinance institutions and to accelerate their growth and impact as financial service providers. Most recently, it has emphasized an approach to microfinance that fosters a broad variety of financial services beyond primarily just microcredit. Especially active in Latin America and Africa, CGAP is a leader in promoting an evolution of

\(^{47}\) The relevant policy for concessional loans in the Microcredit Summit Plan of Action reads, “Loans to microcredit programs at subsidized interest rates from international financial institutions (e.g., the World Bank and the regional development banks) and private socially-conscious investors are important for fueling rapid growth of loan portfolios in the early stages of a microcredit institution’s development. These funds help underwrite a transitional period during which the young institution is moving toward sustainability, but is still in need of special support. The use of soft loans should be provided in an environment of business discipline. In order for concessionary funds to accomplish this, rather than becoming a cover for inefficiency or dependence, the granting of such monies should be subject to clearly articulated and measurable performance measures.”

\(^{48}\) World Bank (2001b), Annex 12.
microcredit activities into ‘full-fledged’ financial services that serve the poor and are integrated into the wider financial sector. This goal of sustainable mainstream and commercial services for micro-level activities points to the need for efficient and sound business practices beyond simply charging high interest rates to cover operating expenses.\textsuperscript{50} CGAP’s recognition of this need for sustainability and formalization in order to support rapid expansion calls for a critical evaluation of linking financial and non-financial services. The Group’s 2003-2008 strategy considers,

Given the proliferation of hybrid programs in which financial services for the poor are combined with non-financial services such as education or health, there is an urgent need for guidelines on including microfinance in multi-sector projects. In some cases, such combinations have shown positive results, but in far more cases it is necessary to de-link or better sequence financial and non-financial services.\textsuperscript{51}

Transparent performance evaluations of these services can help to better make such assessments. Though relatively recent, CGAP’s ‘industry’-wide coordinating efforts to mainstream microcredit as a development tool are significantly gaining in influence.

D. \textit{Inter-American Development Bank Support of Microcredit Activities}

Many regional development banks have increasingly become involved in the support of microcredit activities, especially in Latin America, Asia, and Africa. Of these, however, particularly the Inter-American Development Bank (IDB) has played both a pioneering and a leading role since the late 1970s.

Table 4 presents a summary of total microcredit funding between 1979-2001 for the Inter-American, Asian, and African Development Banks. Though incomplete, the data available clearly shows the rapid growth of microcredit since 1990 and especially after 1996, with the IDB as the leading institution.


\textsuperscript{50} CGAP (2003), 6-13.

\textsuperscript{51} CGAP (2003), 13.
Table 4
Regional Development Bank Funding

<table>
<thead>
<tr>
<th>Years</th>
<th>Inter-American Development Bank</th>
<th>African Development Bank</th>
<th>Asian Development Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-1989</td>
<td>90.2</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1990-1996</td>
<td>452</td>
<td>27.78 (1)</td>
<td>45.71</td>
</tr>
<tr>
<td>1997-2001</td>
<td>500 (2)</td>
<td>193.08 (3)</td>
<td>469</td>
</tr>
</tbody>
</table>


(1) Includes totals for 1995-1996 only.
(2) Estimated
(3) Includes totals for 1997-1999 only.

The Asian Development Bank (ADB) first began funding microfinance activities in 1988 and it was not until the later 1990s that microfinance policy began to gain important attention in the ADB. In 1999, eight of twenty-one microfinance or microfinance component loans since 1988 had been approved in the last three years and accounted for 49% of the total amount in those eleven years. As of May 2002, 94% of the microfinance loans had been approved since 1996.

Though also beginning to become an ever-important actor (particularly with the support of the World Bank and pressure by USAID) in supporting regional microcredit activities for development, the African Development Bank (AFDB) is a relative newcomer having only become more involved in the late 1990s, with a significant increase since 1998. In 1997 total microcredit lending amounted to US$12.11 million. By 1999 this amount had increased to US$87.71. Also, where others have taken leading roles in Africa and Asia, the IDB has been the leading institution for microfinance development in the region of Latin America.

A leader in microenterprise development in Latin America since 1978, the IDB has long experience in the field. While most of the programs supported under the umbrella of UN and

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52 63% of this amount was concentrated in Bangladesh and Indonesia and 33% in Philippines and Nepal. Asian Development Bank (2002).
53 For a review of its development see Asian Development Bank (1999 and 2002).
54 Snow & Buss (2001), 300.
World Bank influence include social welfare programs linked to credit activities, the IDB takes a somewhat different approach towards the role of microcredit in development. The IDB approaches microcredit primarily as a means of economic opportunity to promote broader distribution of the benefits of economic growth in a society. Recognizing the hugely significant role microenterprises play in developing economies,\footnote{As of 1997, an estimated more than 80\% of businesses in Latin American and the Caribbean employed 10 or fewer employees. Of these, half consisted of self-owned activities with no other employees. According to the International Labour Organization (ILO), in the mid-1990s, microenterprises comprised over half of the region's employment. Inter-American Development Bank (IDB) (1997a).} the IDB sees microcredit as a way of newly reaching a sector of society and the market, which includes the most marginalized, by promoting its growth and development thus helping to ease the social and human costs of economic adjustment in poorer countries.\footnote{See IDB (1997b) for more details.} While more in terms of priorities than actual funding amounts, the Bank views its support for microcredit activities as a significant area to promote the more broadly distributed social and economic development of Latin American countries.

In terms of numbers, bank financial support for microcredit operations has much increased since 1978, particularly so between 1990 and 1996. Table 5 shows the yearly average of IDB funding for microenterprise development since 1979. While most of the above funds were originally allocated through IDB's Small Projects Program, in recent years they have been channeled through country or development banking sectors in a 'global' microenterprise loans program and, since 1993, through the bank’s newly created Multilateral Investment Fund (MIF).

In its support for microcredit, the IDB targets micro-businesses without access to financial services. Significantly, half of these 'businesses' with fewer than ten employees and small assets (which account for over 80\% of businesses in Latin American and the Caribbean\footnote{And somewhere between 30\% and 60\% of all these microenterprises are owned and operated by women - one of the fastest growing portions in the microenterprise sector. IDB (1997b).}) consist of one poor owner and no employees. The Bank recognizes that in many cases these are subsistence level household 'enterprises' depending upon family member labor and with no distinct separation between production-consumption and household-firm finances.\footnote{IDB (1997b).} By implication, economic opportunities for these microenterprises cannot but directly impact these families.

\footnote{57 As of 1997, an estimated more than 80\% of businesses in Latin American and the Caribbean employed 10 or fewer employees. Of these, half consisted of self-owned activities with no other employees. According to the International Labour Organization (ILO), in the mid-1990s, microenterprises comprised over half of the region's employment. Inter-American Development Bank (IDB) (1997a).}
\footnote{58 See IDB (1997b) for more details.}
\footnote{59 And somewhere between 30\% and 60\% of all these microenterprises are owned and operated by women - one of the fastest growing portions in the microenterprise sector. IDB (1997b).}
\footnote{60 IDB (1997b).}
Table 5
Average IDB Funding for Microenterprise Development*
1979-2001

<table>
<thead>
<tr>
<th>Years</th>
<th>Average Yearly Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-1989 (11 years)</td>
<td>US$8.2 million</td>
</tr>
<tr>
<td>1990-1996 (7 years)</td>
<td>US$64.6 million</td>
</tr>
<tr>
<td>1997-2001 (5 years)</td>
<td>US$100 million</td>
</tr>
</tbody>
</table>


*According to IDB classification, funding for microenterprise development is broader than assistance for microcredit strictly defined and also includes assistance to small enterprises and venture capital. For example, from 1997-2001 only about US$20 million, 4% of the MIF’s allocated US$500 million, was used for specifically microenterprise development.

In order to implement its goal, the IDB focuses both on creating a favorable economic policy environment for microenterprise growth and development and on strengthening sustainable intermediary institutions (often NGOs) "providing market-oriented sustainable business services to microenterprise." Typically, these sustainable business services include financial services and business development services that directly contribute to the human and social capital development of those with access to microcredit.

E. USAID - Bilateral Promotion of Microcredit Projects

In addition to multilateral assistance and private development organizations, bilateral country aid programs are also a significant source of funding for microcredit institutions as well as research in the field. These development aid programs administered by developed country governments are also joining in the 'industry'-wide endeavors to coordinate international donor efforts. A glance at CGAP's bilateral member donors shows over half to be bilateral aid programs from a large number of the most developed countries. These include many aid programs from the United States, Canada, Japan, Australia, and Western European countries such as Sweden, the United Kingdom, France, Norway, Germany, Finland, Switzerland, Denmark, Belgium, and The Netherlands. Many of these country aid agencies focus efforts on

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61 IDB (1997b).
Asia and, more often, Africa. Specifically, USAID, the United States bilateral development aid agency, has long been very much involved in support for microcredit programs as development tools. The agency supports microcredit activities in regions around the globe including Latin America, Africa, Eastern Europe, and Asia. One of the world's leading donors, USAID invested over US$1 billion between 1988 and 1998 in microenterprise development. Yearly funding increased in the latter half of the decade after a distinct Microenterprise Initiative program was established in 1994. Table 6 shows annual USAID funding for microenterprise activities from 1994 through 1999 and congressional amounts allocated for microenterprise development in 2000 and 2002.

As shown in Table 6, the Microenterprise for Self-Reliance Act (2000) allocated US$155 million in funds, for 2000 through 2002, in support of microenterprise development. This funding for microenterprise development was meant to reduce poverty as well as dependency on foreign assistance. The expanded aid was to be implemented through USAID's Microenterprise Initiative with the help of the State and Treasury Departments, which have promoted microenterprise in the development programs of both international financial institutions and the United Nations. Fifty percent of this aid was to be directed to microcredit institutions serving the very poor, particularly women (translating into Latin American institutions offering loans under $400 and, in most other developing regions, those institutions offering loans valued under $300). As a key component of reaching so many of the very poor, the bill cites the need to expand and replicate already successful institutions, mentioning particularly the Grameen Bank, K-REP, ACCION International, FINCA, BRAC, BancoSol, SEWA, ACEP, and credit unions as successful microlending institutions.

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62 CGAP (1997). As a few examples: AusAID, the Australian bilateral aid agency allocated US$3.3 million for microfinance activities in FY1996/97 with an emphasis on Africa. DMZ, the German bilateral aid program currently maintains a $150 million portfolio for microfinance. The Swiss development agency (SDC) allots $17 million per year for support of microfinance activities. Department for International Development (DFID) of the UK invested US$100 million in microfinance over 1990-1996 focusing efforts on Africa and Asia. Both the Swedish (SIDA) and Danish (DANIDA) development agencies focus efforts on Africa as well. DANIDA finances small programs of up to $0.5 million. The French development ministry (CF), which also places emphasis on Africa, invested US$80 million in microfinance activities between 1987-1996.


64 USAID (1998) and USAID (2002)

Table 6

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994 (USAID)</td>
<td>US$137.4 million</td>
</tr>
<tr>
<td>1995 (USAID)</td>
<td>US$133.5 million</td>
</tr>
<tr>
<td>1996 (USAID)</td>
<td>US$111.4 million</td>
</tr>
<tr>
<td>1997 (USAID)</td>
<td>US$165.1 million</td>
</tr>
<tr>
<td>1998 (USAID)</td>
<td>US$110.5 million</td>
</tr>
<tr>
<td>1999 (USAID)</td>
<td>US$140.5 million</td>
</tr>
<tr>
<td>2000 (allocated by congress)</td>
<td>US$155 million</td>
</tr>
<tr>
<td>2001 (allocated by congress)</td>
<td>US$155 million</td>
</tr>
<tr>
<td>2002 (allocated by congress)</td>
<td>US$155 million</td>
</tr>
</tbody>
</table>


USAID notes its objectives to assist microcredit organizations providing financial services to the poor on a wide-reaching and sustainable basis. As concerns programs providing the poor with both financial and non-financial services and the granting or not of USAID assistance, USAID uses the following policy:

First, clients should generally be able to choose which services they need, rather than being offered a fixed package of financial and non-financial services on a take-it-or-leave-it basis. An exception may be appropriate where an organization integrates social messages or similarly limited non-financial assistance with the delivery of financial services, to the extent that it does so without compromising the effectiveness of its financial service delivery. Likewise, an exception may be appropriate where the organization can demonstrate that a particular type of training or other service strongly contributes to loan repayment rates by enhancing the productivity of clients' enterprises. Assertions that such services are needed to ensure loan repayment should be viewed with caution, in view of the high repayment rates achieved by many MFIs [microfinance institutions] that provide only financial services.66

While USAID does not specifically emphasize or promote the linkage of social welfare programs with credit access, there is a clear 'gray area' of support for programs that primarily provide financial services but that also take advantage of poor client contact to promote social objectives.\textsuperscript{67}

Rapidly increasing international influence on local credit initiatives by bilateral and multilateral assistance organizations is unmistakable. This widening spectrum of influence must be accompanied with increased responsibility on the part of the international aid community and those that support them, especially governments, in discerning the implications of various approaches to credit provision for poor persons, poor families, and society as a whole. With this in mind, it is crucial to evaluate what is known about how microcredit and, in many cases, services linked to the provision of credit, affect families, as the fundamental societal unit, through credit provision to individual family members. In keeping with the Microcredit Summit goal of expanding credit access to 100 million of the world's poorest families by 2005, how are approaches used to reach these families affecting them as the most basic environment for human development?

IV. Microcredit and the Family

A. Impacting the Family

Limited empirical studies have been performed to evaluate the impact of involvement in various microcredit programs upon the household.\textsuperscript{68} These studies are largely limited to assessing the impact of one or a small number of programs upon their members. There exists no one, systematic resource for providing data on impacts (at the enterprise, household, or individual level) across the whole of microcredit institutions. As it has been previously explained, program types and approaches to the provision of credit are many and various, many operate on a localized basis (though with increased foreign donor support and 'industry-wide' coordination efforts this is becoming, to a certain degree, less of an issue), and, perhaps most

\textsuperscript{67} USAID (1995), 25.

\textsuperscript{68}
importantly, it is difficult both to track effects among individual poor households and to quantify social and human capital factors that capture complex effects of participation in credit programs. Also, difficult methodological controversies, such as controlling for self-selection of participants who join microcredit programs (i.e. persons and/or households with certain characteristics may or may not be more likely to join available credit programs), have plagued a number of the impact studies that have been performed. Another important factor to consider is that the majority of impact studies have been concentrated in Asia, particularly Bangladesh, and to a lesser degree in Africa, with only a very few having been performed in Latin America.\textsuperscript{69} Nevertheless, in spite of the lack of abundant studies relative to the attention and resources microcredit has received, methodological setbacks, and the undistributed geographical concentration of studies, studies have generally agreed upon a positive impact for poverty alleviation.

According to Sebstad and Chen (1996), "studies show fairly consistently the limits to growth of many microenterprises, the fungibility of resources within poor households, and the use of credit and the profits it generates for investments across a range of household production, consumption and investment activities. This contributed to increasing acknowledgement of the important role of credit for poor households, beyond the enterprise."\textsuperscript{70} To this end, more recent microcredit impact studies have been broader than many of those performed before 1990 by taking into account not only relative effects on microenterprises but also impacts on the household including, women's status, family planning and fertility, as well as health and nutrition.\textsuperscript{71} Sebstad and Chen (1996) report that "the richest body of information on the impacts of microenterprise credit is from Bangladesh, where six major impact studies covering seven programs have been carried out since 1992 [through 1996]."\textsuperscript{72} This concentration reflects both "the scale of the programs there [Bangladesh] and the high level of donor resources allocated to them."\textsuperscript{73} Of the eighteen (from thirty-two) studies containing data on household level impacts, results generally found increased income and assets and improved consumption among

\textsuperscript{68} See Sebstad and Chen (1996) for a review of the literature.
\textsuperscript{69} Sebstad and Chen (1996), 3.
\textsuperscript{70} Sebstad and Chen (1996), 8.
\textsuperscript{71} Some of these include Amin et al (1994), Burjorjee (2002), Cohen and Snodgrass (2002), Coleman (2001), and Dunford (2001).
\textsuperscript{72} Sebstad & Chen (1996), 9.
\textsuperscript{73} Sebstad & Chen (1996), 3-4.
households although there was not data enough to prove these beneficial effects would be sustained over time and findings from Africa were more mixed than those in Asia.\textsuperscript{74}

A number of impact studies have measured the role of participation in microcredit programs in providing an opportunity for poverty alleviation by calculated increases in income or household consumption measures. A 2001 study of Acción Comunitaria of Peru (an ACCION affiliate and now known as Mibanco) demonstrated a twenty percent increase from 1997 to 1999 in average per capita income of borrower households as compared with a control group. The study suggested that this increase was probably attributable to growth in microenterprise revenue, which would indicate that microcredit driven changes in enterprises result in improvements for household welfare - "Low-income households that have sound financial management practices can benefit from a well-developed microfinance industry."\textsuperscript{75} Another 2001 study from the SEWA (Self-Employed Women's Association) Bank in India found significant increase in the total informal sector earnings of borrowers (all women) and their households.\textsuperscript{76} A similar 2001 study of Zambuko Trust in Zimbabwe demonstrated a positive impact on member households acquiring assets as well as a significantly higher frequency of consuming meat, chicken or fish, and milk in borrower households.\textsuperscript{77}

Included in the concentration of studies from Bangladesh, results from a 1996 World Bank Study of three major rural credit programs in Bangladesh\textsuperscript{78} suggested that participation in these credit programs has helped alleviate the poverty of many borrower households. The study employed a measure of poverty based on household consumption, which was derived from expenditures for food and allowance for nonfood items. Table 7 compares the measured incidence of moderate and extreme poverty among program participants and non-participant households who fit the range of those eligible for program participation\textsuperscript{79} (i.e. target non-participants) in villages served by the three credit programs.

\textsuperscript{74} Sebstad & Chen (1996), 11-12.
\textsuperscript{75} Dunn \textit{et al} (2001), 20.
\textsuperscript{76} Chen and Snodgrass (2001).
\textsuperscript{77} Barnes (2001).
\textsuperscript{78} These are the Grameen Bank, BRAC, and BRDB RD-12 (Bangladesh Rural Development Board's Rural Development Program - a government project).
\textsuperscript{79} Those considered eligible for membership or within the 'target group' of the Grameen Bank program include those not owning more than one-half acre of cultivable land and whose total value of assets is not more than the value of one acre of medium quality land at the current local rate. "The Grameen Way." Available online at http://www.peoplesfund.org/grameen3.html (accessed 8/19/02).
Table 7
Percentage Incidence of Moderate and Extreme Poverty

<table>
<thead>
<tr>
<th></th>
<th>Incidence of Moderate Poverty</th>
<th>Incidence of Extreme Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Participants</td>
<td>Target Non-participants</td>
</tr>
<tr>
<td>Grameen Bank villages</td>
<td>61.61</td>
<td>71.54</td>
</tr>
<tr>
<td>BRAC villages</td>
<td>70.42</td>
<td>64.00</td>
</tr>
<tr>
<td>BRDB RD-12 villages</td>
<td>63.67</td>
<td>66.94</td>
</tr>
<tr>
<td>Non-program villages</td>
<td>n/a</td>
<td>65.59</td>
</tr>
</tbody>
</table>


Note the lower incidence of moderate poverty among participants in Grameen Bank and BRDB RD-12 villages as compared to non-participating target households. Among Grameen Bank participants this incidence was 10% lower. Among BRAC participants, however, the incidence of moderate poverty was slightly higher than among non-participants. Extreme poverty was also less prevalent among participants in all three programs.

This same Bangladeshi study also assessed a significant increase in net worth among borrowers. In some cases, the average net worth of participants was 30-50% higher than target non-participants and in all cases higher than even non-participants who were not members of the target group. These reduced measures of poverty not only improved short-term consumption but also increased savings, assets and net worth on a sustainable basis over the long term for borrower households. On average, participant households were able to rise above the poverty line in slightly under five years in the case of Grameen Bank and slightly over five years for BRAC and BRDB participants.80 A similar 1996 World Bank study from Bangladesh found credit to men and women increased expenditures on both food and non-food items in borrower households. These effects were particularly significant in the case of credit provided to women.81

Differences in impact between lending made to women or to men borrowers is another key area of interest, particularly in more recent studies. A 1998 Bangladesh study of Grameen Bank, BRAC, and BRDB RD-12 considered whether differences in impact on labor supply, schooling, household expenditure and assets could be detected based upon the gender of the household's borrowing member. The study showed that credit had a significant impact on these factors and credit to women in particular was more likely to influence these factors than credit to men. A notable example of this finding: annual household consumption expenditure increased 18 taka\(^{82}\) per every 100 taka borrowed by women from these programs as compared to an annual household consumption expenditure increase of 11 taka per every 100 taka borrowed by men.\(^{83}\)

Impact on children is often assumed to coincide with impact on the household. Although effects on the school enrollment of children are often measured separately, findings on this aspect of family impact are mixed. Some do not find any impact on schooling, some find even a temporarily negative impact (as resources are initially funneled into the microenterprise), and others find various positive impacts.\(^{84}\) As a few examples, the 2001 USAID studies in Peru, India and Zimbabwe cited above all found no impact of program participation upon school enrollment for girls while the India and Zimbabwe studies found a positive impact upon school enrollment for boys.\(^{85}\) One of Pitt and Khandker's Bangladeshi studies of the Grameen Bank, BRAC, and BRDB RD-12 found that credit had a positive impact on boys' school enrollment, more so than girls', among member households and also that credit to women had a greater positive effect on school enrollment of girls.\(^{86}\) In a small-scale observational study of long-term Grameen Bank participants compared with a control group of non-members from the same villages, Todd (1996) found that child labor contracts were more common in control group households than in Grameen member households.\(^{87}\)

Some studies from Bangladesh also evaluate the impact of program participation on contraceptive use, particularly because the major credit programs in the region include requirements for contraceptive use or the promise of small families. The somewhat contradictory findings, rooted in difficult methodological controversies, generally fall into two

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\(^{82}\) taka = Bangladeshi currency

\(^{83}\) Pitt & Khandker (1998).

\(^{84}\) Sebstad & Chen (1996).

\(^{85}\) These studies are Dunn & Arbuckle (2001), Chen & Snodgrass (2001), and Barnes (2001). Similar results are found by Cohen and Snodgrass (2002).

On the one hand, a number of studies show a significant increase in contraceptive use among program participants of the Grameen Bank, BRAC, and/or BRDB RD-12. These studies find this increase to be the case even when controlling for self-selection of participants to join programs and therefore conclude that credit programs in Bangladesh are contributing to contraceptive use. Most notably among these are two publications based on the same data set by Schuler and Hashemi (1994) and Schuler et al (1997). On the other hand, two publications by Pitt and Khandker (1996) and Pitt, Khandker, McKernan, and Latif (1999), also based on one data set, claim that when also controlling for non-random placement of village programs there is no indication of women's increased contraceptive use relative to non-participants, even though all previous literature found an increase in contraceptive use among women participating in the Grameen, BRAC or BRDB programs. Also, while the Pitt and Khandker studies do not find support for increased contraceptive use among women, they do cite an increased use of contraception among men. It can at least be noted that, while these contradictions remain unresolved, all of the studies found some form of increased contraceptive use attributable to participation in the Bangladeshi credit programs. Such an attributable increase seems only to be expected as these programs set fertility limitation as a requirement for participation.

In general, though program impact studies are not well-distributed geographically, access to credit seem to be a viable tool for helping the poor to increase overall household income, consumption and assets - for helping the poor to meet basic needs and slowly gain a greater degree of economic security. Sebstad and Chen’s (1996) overview of impact studies relates,

At the enterprise level, the studies consistently find impact in the areas of output and income, and somewhat less consistently in the areas of asset accumulation and employment. A vast majority of assisted enterprises show some improvements, although few appear to move on to a path of sustained growth. It is also clear that the benefits of credit extend beyond the enterprise to the household and individual levels. A growing body of evidence shows generally positive effects on household production and incomes, asset accumulation, and consumption. Loans have an impact on poverty not only through improved

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87 Todd (1996). (Child labor contracts were generally made for 8 to 16 year old children.)
88 The two most prominent figures in this debate have been a series of studies by Pitt & Khandker (1996, et al. 1999) and a series of studies by Schuler & Hashemi (1994) and Schuler et al (1997). Pitt & Khandker cite the need to account for both the self-selection bias of participants and the possibly nonrandom village placement of credit programs (as well as choice-based sampling) when calculating rates of contraceptive use among participants as compared to non-participants. The Schuler & Hashemi studies do control for self-selection of participants but do not control for possible nonrandom village placement of credit programs. Schuler & Hashemi claim that the Pitt & Khandker studies assume that the presence of credit programs in villages have no effect on the behavior of non-participants in that village.
conditions, but also through household investments that improve living conditions and contribute to improved household security. Findings from several studies also suggest changes in women's empowerment and contraceptive use.\textsuperscript{89}

Many of these factors suggest good reasons for promoting microcredit in development as a way to assist the poor and help provide some of the means for them to work their way out of poverty. Microcredit, however, is not without its costs. Not all borrowers have success with microcredit and different approaches to the provision of credit access affect borrowers and their households in different ways - for good and for bad. Some of the resultant impacts are quantifiable (e.g. changes in income, changes in consumption, drop-out rates, contraceptive use) and others are not (e.g. the burden of sometimes heavier workloads to meet loan repayments, all the myriad effects upon the household). The available impact studies are both useful and limited. When incorporating the useful information gathered from the available pool of impact studies, it is interesting to consider what sorts of effects microcredit programs and components of these programs can be expected to have in a broader context of societal development with the family at the center as the basic organic unit of such development.

\textbf{B. Implications for Family and Development}

As put forth in the Universal Declaration of Human Rights, "the family is the natural and fundamental group unit of society and is entitled to protection by society and the state."\textsuperscript{90} Humans first develop in the family and the family provides the most basic setting for fostering the development of human capital.\textsuperscript{91} The family is also not merely “a collection of autonomous individuals bound together by contract and good will.”\textsuperscript{92} It is an organic entity with special ties of blood and kinship. The family is fundamentally a working with other members for the benefit of all as an organic unit rather than a competitive zero-sum conflict between individual members.\textsuperscript{93} As the family is a part of every human being’s life, and is “the main source of

\textsuperscript{89} Sebstad & Chen (1996), 20.
\textsuperscript{90} UNHCR (1948), Article 16.3.
\textsuperscript{91} See supporting literature in footnotes 7 and 8.
\textsuperscript{92} Aguirre & Wolfram (2002), 116.
\textsuperscript{93} In fact, when a zero-sum approach is taken, human and social capital are negatively effected. Footnotes 7 and 8 provide ample support for this conclusion.
economic and social welfare for its members”\(^{94}\), it is also “the first building block in the generation of social capital in the larger society.”\(^{95}\) A large and growing body of empirical evidence in the social sciences points to the stable family (i.e. a functional family with children’s biological or adoptive mother and father in a stable marriage) as the best environment for development as well as pointing to the large social and economic costs of the disruption of the family.\(^{96}\) To promote human and social development on a sustainable basis, it is necessary to promote human development within the context of the family.

It follows that in order to build civil society; any approach to microcredit should provide credit access with an awareness of its context within the family unit. Alleviating poverty, which microcredit can in part facilitate, helps contribute to the human and social health of the family by such tangible means as increasing resources for nutrition and basic education of its members. Microcredit is inextricably linked to the family because, for one reason, in so many instances microenterprise production and consumption and financial resources so closely overlap household production-consumption patterns and financial well-being. Indeed, “Microenterprises are not autonomous economic units but an integral part of the family itself.”\(^{97}\) Together, the poor family unit works to make a living, which is directly impacted by the success, failure, or even absence of a microenterprise opportunity. In the case of microcredit, “Viewed as an addition to the household’s set of human, physical and capital resources, credit can be used in any household activities.”\(^{98}\) For all its possible benefits, however, any credit institution (and any borrower group or organization within that institution) plays a development role subsidiary to the family. The “fundamental”\(^{99}\) role of the family unit in all societies, developing or not, is “entitled to protection by society and the state”\(^{100}\) – including microcredit institutions.

As mentioned, a popular approach to microcredit targets women borrowers over and above men. Cited in this decision include experiences of higher repayment rates among women borrowers and the idea that women may be more likely to transfer increased resources from the

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\(^{94}\) World Bank (2002), 1.
\(^{95}\) ibid.
\(^{96}\) See footnotes 7 and 8.
\(^{97}\) Otero & Rhyne (1994), 146-147.
\(^{98}\) USAID (1998), 30.
\(^{99}\) UNHCR (1948), Article 16.3.
\(^{100}\) UNHCR (1948), Article 16.3.
microenterprise to other family members, particularly children. Also, women are often seen as among the more poor, vulnerable groups in society and, as a result, directing microcredit services to those without access to financial services often may include a large number of women. In many cases, NGOs and other types of credit institutions are seeking to ‘empower’ women by increasing their economic position in society and as an individual member of the family. Indeed, the Microcredit Summit goal to reach 100 million families with credit by 2005 mentions reaching “especially women” as a means of reaching the proposed number of families. This reasoning is not without logic – by targeting women, those women have families, and therefore helping those women helps their families.

There are indeed good arguments for targeting women borrowers with access to microcredit in pursuit of benefiting the household unit as a whole in development. Nevertheless, perhaps to some degree influenced by the ascendancy of the radical women's rights lobby in the 1970s when and after which (1980s) many microcredit institutions were forming, a small number of microcredit institutions aim to ‘empower’ women through approaches which frame the context of their lives in a series of oppressive structures linked to the cause of their poverty and misfortune. This easily translates into an interpretation of the family or the marital relationship as a structure hindering women’s true individual development. The Bangladesh

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101 As a prominent example, “Senior officers in the Grameen Bank (and the Grameen Bank replicators in other parts of Asia) make no bones about the usefulness of targeting women in order to improve the welfare of the family as a whole, particularly the children.” They generally believe that, for women, income from loans goes immediately into better food, health, clothing and shelter for their children. Todd (1994), 183. Pitt & Khandker (1998) and Todd (1994) have found this to be so for a small number of credit programs in Bangladesh. SBP (1998),38 and many others in the microcredit field tend to take the limited research results and anecdotal evidence on this point for an accepted norm of practice (i.e. the greater household benefits of targeting women more than men) across all microcredit activities in all regions. Nevertheless, “since many generally accepted ideas about women and microfinance are based on the Grameen Bank’s experience, which lacks a control group of men, it is difficult to generalize conclusively about the repayment behavior of males and females. However, a review of World Bank projects supporting enterprise development for women found that the majority of projects monitoring repayment data reported a higher repayment of loans in projects focused on women than in companion nontargeted projects.” SBP (1998), 38.

102 SBP (1998), 37. According to a 1996 World Bank survey, microcredit institutions administered by NGOs are more likely than other types of microcredit providers (banks, credit unions) to serve a majority of women clients and institutions with a majority of female borrowers generally meet a much larger proportion of their budget with donor funding than institutions with greater than fifty percent male borrowers. Paxton (1996), 11,25.


104 In general, microcredit programs with a majority of female clients tend to be younger than those with a majority of male borrowers. Paxton (1996), 11-12. The Grameen Bank originated as a bank offering credit for both male and female borrowers. In the 1980s, however, partially in response to increasing repayment problems within male centers the bank began a shift toward only women members. By the end of the 1980s, it had become a women's bank with 94% women members. Todd (1996), 7,159-160.
Rural Advancement Committee (BRAC), for example, explicitly aims to empower women through group “conscientizing” procedures, which potential borrowers must attend for at least two months before gaining access to credit services. Yet, while performing a small-scale observational study of long-term Grameen Bank participants, Todd (1996) found that in reality many women worked in partnership with their husbands jointly combining family effort and resources. Household income contributions by the women proved not to be a source of confrontation or a position of breaking tradition or challenging authority and the individualistic issue of who actually ‘got’ the income within the household was irrelevant to them. In spite of the available evidence, however, UNFPA (2002) claims that although “microfinance has showed women how to earn money … there is still the question of who controls the resources they bring into the home. Male partnership is not guaranteed, and some men feel threatened by their wives’ new earning power.”

Another component of popular approaches to implementing credit access that stands out in microcredit literature and practice is a condition for "small families" and/or family planning education linked to credit access. Most prominently, this regulated-family-size requirement figures in the well-known program implemented by the Grameen Bank in Bangladesh. While Grameen Bank is just one institution and also just one of many institutions linking a development goal of small families and/or the use of artificial family planning procedures to credit access for the poor, the influence of the bank and its ideas is enormous and therefore particularly worthy of note. Attaching this goal of limited fertility to credit is significant because of its potentially negative social effects as contributing to an aging population, increases in irresponsible sexual activity among adolescents, and the increased phenomenon of sexually

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105 Both the Grameen Bank, BRAC, and Pro Mujer in Bolivia are examples of institutions that promote such interpretation.
106 These procedures ‘educate’ women by ‘enlightening’ them to a context of oppressive structures believed responsible for their poverty and misfortune. In the past, this requirement extended for one year prior to being granted eligibility for credit access until BRAC realized that clients were really most interested in receiving credit and simply complied with other procedures in order to gain access to credit. Todd (1996), 158-161.
109 The Grameen Bank’s "Sixteen Decisions" spell this out. Memorization of, compliance with, and chanting of these ‘decisions’ at mandatory borrower meetings are required of clients in order to maintain credit access. They are displayed online at http://www.grameen-info.org/bank/the16.html (accessed 9/23/02). Similarly, members of BRAC in Bangladesh also commit to a program of “Seventeen Promises”, which include a promise, “We shall adopt family planning and keep our family size small.” Lovell (1992), 84,166.
transmitted diseases all of which indicate an inefficient use of scarce resources.\footnote{For an analysis of the aging population and negative health side effects resulting from efforts to limit fertility see Aguirre (2002). Paton (2002) measures an increase in irresponsible sexual activity linked to the provision of family planning services. On the issue of aging population, see also Wattenberg (1987) and Simon (1996).} The Grameen Bank itself directly reaches over 2.5 million borrowers and maintains a presence in half of the rural villages in Bangladesh and yet this marks only the beginning of its influence. In addition, the Grameen Bank’s approach to microcredit, both through its own efforts (through the Grameen Trust) and through the support of influential international donors (including the United Nations and others), has been promoted as a prototype for replication in Sub-Saharan Africa and much of Asia. Many ‘fledgling’ microcredit institutions and much of the expanding outreach receiving international development attention have been and continue to be based upon the Grameen model or variations of it.

Common justifications for linking credit access to the promise of small families or family planning education include a simplistic link between poverty and family size\footnote{For greater analysis of the often popular yet overly simplistic development linkage between poverty and fertility see the following: Aguirre & Wolfgram (2002) and Aguirre (2002), Eberstadt (1996 and 2000), and Simon (1996).}, health claims regarding child spacing and limited births such as those promoted by the UN and the World Bank in the Facts for Life\footnote{An example of this reasoning can be found in Facts for Life a set of health guidelines published by UNICEF, WHO, UNESCO, UNFPA, UNDP, UNAIDS, WEP, and the World Bank, which is used for health education linked to credit programs. It includes the following message, “The health of both women and children can be significantly improved when births are spaced at least two years apart, when pregnancy is avoided before age 18 and after age 35, and when a woman has no more than four pregnancies in total.” As far as promoting particular methods for this spacing and limitation of pregnancies, the report later cites condoms as the only contraceptive means to “protect against both pregnancy and sexually transmitted infections, including HIV/AIDS,” and promotes access for condoms to all in order to prevent HIV/AIDS. In light of this point it should be noted that a June 2002 UNFPA report, HIV/AIDS: Awareness and Behavior, found that, according to data from thirty-nine African, Asian and Latin American countries, fewer than eight percent of women had changed their behavior to using a condom in order to prevent HIV/AIDS – most frequently, a behavioral change had been to carry on a relationship with only one partner. Furthermore there is empirical evidence that the use of condoms do not help women. David and Weller (1999) point out that while the principle is the same in both HIV and pregnancy prevention, important differences prohibit the simple assumption that condoms will perform as well for HIV. First, there are more routes of transmission for HIV, second HIV can be transmitted at any time of the woman’s cycle, and third, HIV particles are smaller than the male cell and can easily leak through condoms. Thus, they recommend for the prevention of sexual transmitted HIV infection abstinence, long-term monogamy with a seronegative partner (For a complete list of references on this evidence see the same article.) In addition, it must be added that certain condoms increased the risk of HIV infection on women because of the use of certain chemical components such as nonoxinol-9, which diminish the immune system and cause vaginal infections (UNAIDS, 1996).}, as well as an ill-founded link between small families and perceived responsible decision-making capabilities of borrowers.\footnote{A small, spaced family and the use of family planning procedures are taken for granted as the sign of a healthy, more responsible and well-off family. In cases where credit access is linked to promotion of these practices, such as the Grameen Bank, the use of artificial family planning is taken as a sign of responsible decision making by member borrowers. Schuler, Hashemi & Riley (1997), 572-573.} By this reasoning it is unclear,
however, what precludes a choice not to use family planning and/or a decision to have a large family from also being a sign of responsible decision-making. This seems especially unclear, as in some cases, improved access to family planning services has been empirically linked to an increase in irresponsible sexual activity.\textsuperscript{114} This link bears particular import for microcredit programs operating in Sub-Saharan Africa where the incidence of sexually transmitted diseases has reached epidemic proportions and levies a high cost burden on limited assistance resources. In addition, if the outreach of microcredit institutions promoting small families is increasingly broadened, this could contribute to future aging population problems in many developing countries carrying with it all sorts of financial and societal difficulties. Rather than improved family well-being, the phenomenon of decreased fertility has also been linked to increased breakdown of the family social structure exhibited most concretely by increases in divorce rates\textsuperscript{115} which deteriorates human and social capital, especially for women and children.

Providing the poor with credit access has been demonstrated to be a beneficial economic opportunity for poverty alleviation, but when credit-providing institutions act to shape the size of their borrower’s families (by means of linking promises for a small family to credit access and/or promoting information on the same at mandatory borrower meetings) this involves a decision much more intrusive and consequential for the family than the provision of financial services. Using access to microcredit as an entry-level development tool to further other social development objectives, such as family planning or the promotion of small families, by a mandatory linking of these services to credit access is hardly less than a subtle sort of social engineering. To link family planning, in particular, to credit access is to link poor couples’ opportunity to access financial services to issues shaping their most private behavior – behavior that is also most basic to the human and social well-being of the family unit. It has been said that the Grameen Bank “is the only bank in the world with its own birth control policy.”\textsuperscript{116} While it

\textsuperscript{114} Paton (2002) reports on this matter.

\textsuperscript{115} For a link between decreased fertility and weakening and breakdown of marriage as a social institution see Popenoe (2000 and 2001). Nobel Prize winner Gary Becker considers that the presence of fewer children translates into decreased ‘joint capital’ in marriage making divorce more likely Becker (1991). See also Aguirre (2001) and Fukuyama (1999).

\textsuperscript{116} “The Grameen Way.” Available online at http://www.peoplesfund.org/grameen3.html (accessed 6/18/02). The Grameen Bank is a special sort of independent bank aided by original sponsorship from the central government bank, but there are certainly other credit programs organized by NGOs, governments, credit unions, and others that link the promotion of family planning use to credit-related activities – most commonly in the form of regular, mandatory group meetings for solidarity group members to process loan repayments as well as to disseminate other social information – including family planning education – to borrowers.
is true that borrowers may certainly choose to join or not join any type of credit program, since such a high demand for credit access often exists among the poor they often comply with other regulations placed on credit access in order to maintain such access so valuable to the welfare of their microenterprises and, consequently, their households. This high demand for microcredit among the poor is often used as a means to disseminate information to implement other development objectives, such as widespread promotion of contraceptive use, extra to providing credit.\footnote{Refer to Todd (1996), 159-161 regarding client demand and provisions for credit access. See also Wright et al (2001), 44. This popular development sentiment that takes for granted a believed need to provide universal access to and use of family planning services often at the expense of truly sustainable development measures is commented on by Todd (1996), “The regular presence of family planning workers in villages where you almost never see any other kind of government extension officer is a striking witness to the single-minded preoccupation of Western aid agencies with limiting the fertility of Bangladeshi women” (193).}

C. Microcredit: Economic Opportunity for the Poor

Microcredit has been shown by impact studies and direct experience to be a good tool for generating economic opportunity among poor households and can therefore be seen as a development tool with good possibilities for promoting human development in the context of the family. The poor's access or not to economic opportunity, however, should not be used as a lever for imposing other social objectives upon them - particularly those harmful to the family and therefore society as a whole. Yet many microcredit institutions do just this even while many others also successfully lend to the poor without linking basic credit access to the fulfillment of other social objectives. In addition to the issue of freedom, the efficient use of limited development resources is also a concern. Most microcredit institutions are not yet self-sufficient and still rely in some measure upon donor funding from private, bilateral and multilateral sources. The opportunity cost of channeling limited funds as well as promoting replication of programs linking borrower access to social objectives that negatively affect the sustainable development of human and social capital must be considered. Priority must be given to maximizing the efficient use of scarce resources and to minimizing negative long-term social effects when evaluating needs for donor support.

A 1996 World Bank inventory of 206 microcredit institutions\footnote{Refer to Todd (1996), 159-161 regarding client demand and provisions for credit access. See also Wright et al (2001), 44. This popular development sentiment that takes for granted a believed need to provide universal access to and use of family planning services often at the expense of truly sustainable development measures is commented on by Todd (1996), “The regular presence of family planning workers in villages where you almost never see any other kind of government extension officer is a striking witness to the single-minded preoccupation of Western aid agencies with limiting the fertility of Bangladeshi women” (193).} showed, among other findings, a number of results comparing characteristics of institutions offering social services in addition to financial services. While it is important to keep in mind that not in all of these cases
is the provision of social services explicitly linked to credit access, the figures provide a helpful basis of information when discussing these issues. The relevant data is captured in Figures 2 and 3. The inventory found that the mean ratio of social to financial staff among microcredit programs directed to primarily female borrowers (where women comprise more than 50% of all borrowers) was 0.56 while for institutions with a majority of male clients this ratio was 0.26 – less than half as much.

**Figure 2**

*Ratio of Social to Financial Staff by Institution Type*

<table>
<thead>
<tr>
<th>Type</th>
<th>Ratio</th>
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</thead>
<tbody>
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<td>Banks</td>
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</tr>
<tr>
<td>Savings Banks</td>
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</tr>
<tr>
<td>Credit Unions</td>
<td>0.6</td>
</tr>
<tr>
<td>NGOs</td>
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</tbody>
</table>


Divided by institutional type, as shown in Figure 2, NGOs had a far greater ratio of social to financial staff than any other type of microfinance institution. NGOs averaged more than one social staff member for every one financial staff member. Similarly, the inventory, as found in Figure 3, also demonstrated that existing institutions in Africa, and particularly in Asia, had a much higher ratio of social service staff to financial service staff than Latin American institutions.

118 Paxton (1996).
These findings suggest that microfinance institutions with a majority of women borrowers, NGOs offering microfinance programs, and microfinance institutions in Asia and Africa are more likely to include social services with access to financial services (primarily credit and/or savings activities) and that funds originally directed to microcredit use, are used instead to finance NGOs’ staff and overhead cost. When viewed in light of more recent increased efforts in targeting specifically women - often done by using a solidarity group approach modeled on replication of Grameen efforts, which attaches particular social objectives to credit access - this is not entirely surprising. Nor is it surprising that Asian and African microfinance institutions have a much higher ratio of social to financial staff when seen in light of the broad outreach of the Grameen Bank, BRAC and similar groups in Bangladesh that have been replicated throughout Asia and upon which many new African institutions are also modeled. This is due in part to increased attention to and funding of this approach by the United Nations and World Bank, which, as described earlier, has been particularly focused in Asia and Africa. As also described earlier, while microcredit institutions using Grameen strategies are

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120 The Grameen Bank did not originally link the promotion of particular social objectives to credit access. Initially, the Grameen Bank simply offered credit to both men and women. This lending slowly evolved into the present structure of borrower groups and centers for credit discipline including a 1979 expansion adding workshops in social development for women members. In 1984, the national workshop, with the support of UNICEF, formulated what are now known as the Bank’s “Sixteen Decisions” – a set of promises, including a promise to maintain small
beginning to expand in Latin America, the majority of Latin American institutions do not require compliance with non-financial measures (beyond accounting or technical business management services) to meet other social development objectives in order to gain and maintain access to credit. This also reflects the influence of the largely financial approach of IDB funding and CGAP strategies throughout Latin America. While USAID’s general approach to microcredit funding does not explicitly emphasize the provision of social services linked to credit access, there is a gray area of support in the agency’s funding for programs that use contact with microcredit clients to promote other non-business social objectives.\textsuperscript{121}

The state-of-the-art trend in microcredit, however, is a growing recognition by many of the need to formalize credit institutions if microfinance opportunities are to be made available on a rapidly expanding scale. Until quite recently the microfinance field was dominated by unregulated NGOs. Although in many respects this remains the case, a growing number of leading institutions, particularly in Latin America, are formalizing and commercializing their activities in order to meet the demands of extremely rapid growth. Demand for microcredit among the poor is high and the vast majority do not yet have access to any type of formal financial services. Few institutions are able to sustainably meet this demand with quality financial services. Some institutions are formalizing so that they can obtain commercial financing (beyond informal and donor-dependent support) to expand outreach and services.\textsuperscript{122}

Damian von Stauffenberg, a former World Bank official who now heads a leading performance rater of microfinance institutions, explains, families that every member must memorize before gaining access to credit and which members (now 94% women) must follow and chant at mandatory weekly center meetings. Todd (1996), 159-161,178-179.\textsuperscript{121}

\textsuperscript{121} “A different type of mixed program combines credit (and possibly savings) with non-financial services aimed at non-business objectives: training in health and nutrition, family planning, environmental activities, etc. A gray area arises in the case of programs that concentrate on providing financial services, but that take advantage of their contacts with poor borrowers to promote social objectives at little or not cost. Grameen Bank’s ‘Sixteen Decisions’…may be seen in this light. Where social messages do not burden or constrain financial service delivery, they may achieve a useful symbiosis.” USAID policy of assistance to programs providing both financial and non-financial services, as cited earlier (see section III.D), generally states that clients should be able to choose which services they use rather than being offered a fixed take-it-or-leave-it package of financial and non-financial services, however, exceptions are made so long as integrated social messages are not deemed to interfere with effective delivery of financial services. USAID (1995), 25-26.

The polarization of microfinance into a few formalized institutions on the one hand and a multitude of small NGOs on the other seems to be a trend that is being repeated... In this scenario, the formalized MFIs [microfinance institutions] easily dominate the market in terms of volume, whereas the NGOs stay small, because they are donor dependent.\textsuperscript{123}

He further explains that this development is not likely an abandonment of traditional micro-borrowers but an expansion of capacity and scale:

The real trend is not mission-creep away from microentrepreneurs. It is a trend toward comprehensive banking services for low-income segments of the population. MFIs are beginning to evolve into banks, which can accompany their clients as they grow and can offer them a full menu of financial services tailored to their special needs.\textsuperscript{124}

CGAP, a leader promoting the expansion of microcredit to reach more of the poor, also explains the importance of integration into the formal financial system if large-scale sustainable microfinance is to be achieved. One component on such a path is institutional transparency that allows others to “understand and judge the performance of microfinance vis-à-vis other financial and non-financial services and other development interventions.”\textsuperscript{125}

In short, access to microcredit services is in high demand among many of the developing poor in Asia, Africa, Latin America, Eastern Europe and other regions of the world. Otherwise unavailable to them, the poor highly value access to these services as an opportunity and an asset to benefit their households by, in more formal terms, helping to maintain and develop their household economic portfolio. Since both initial and continued access to microcredit services is so highly valued, borrowers will often comply with extraordinary non-business requirements set on the provision of access by administering institutions.\textsuperscript{126} Thus, clients provided with the option of a take-it-or-leave-it package of financial services and compliance with social objectives become the products of a subtle social development engineering supported and funded in part by international donor agencies. When these social objectives contain measures or attitudes harmful to the strength and unity of both the family unit and society as a whole, the matter becomes one of especial concern.

\textsuperscript{123} Von Stauffenberg, Damian (2001).
\textsuperscript{124} Von Stauffenberg (2001).
\textsuperscript{126} In a Uganda study it was consistently found that, “clients valued microfinance services (particularly loans) so much that they would take almost any measure to maintain credit-worthiness and thus access to them.” Wright \textit{et al} (2001), 44. Todd (1996) observed a similar reality in Bangladesh regarding possible motivations for client
V. Conclusions

As has been shown, the development of microcredit, primarily in the last two decades, as a non-subsidized opportunity for successfully lending to the poor has shown positive results as a development tool for both individual borrowers and their families. Increases in income and positive changes in household consumption patterns have been among the more consistent impact discoveries. To a lesser degree, experience with women borrowers has also shown that targeting women can be advantageous for family well-being. This is especially so where women are able to earn for activities they can already do while at home.

Considering the implications of microcredit programs and policies for the family in development does not necessitate the endorsement of one particular approach to microcredit lending – be it individual or group lending, larger or smaller loan size, targeting women or both male and female borrowers, or unilaterally endorsing either NGO or bank institutions. Microcredit institutions operate in many different settings in a variety of regions around the globe and it would be simplistic to designate, in one broad swath, one particular approach as most ideal for providing credit opportunity to the poor in all community settings. Nevertheless, it can be said that a danger to and/or infringement upon the organic family as the basic societal unit can result from programs linking credit access for poor families and entrepreneurs to compliance with social measures designed to meet the non-business social objectives of regional or international development agendas. As the most basic unit of development for the human person in society and affirmed as such in the Universal Declaration of Human Rights, preserving the well-being and unity of the family ought to be at the center of all approaches to development assistance. In this context, faced with the reality of scarce resources, priority must be given to development channels that most efficiently promote sustainable human and social capital development.

Recognition of available evidence and experience pointing to microcredit as a good tool, though limited, to open doors of opportunity for the developing poor, has recently generated remarkable international attention to the practice as a feasible development approach. As has been shown though, much of this attention, particularly in Asia and Africa, has been directed compliance with the ‘Sixteen Decisions’ requirements, regimentation and chanting procedures of the Grameen Bank in Bangladesh.
toward strengthening existing programs and supporting new programs that attach extra social objectives to loan access thereby risking a subtle sort of social engineering as well as making financial capacity and outreach difficult to sustain. Due to the nature of many of these social programs and their taking undue advantage of the close link between microenterprise and household activities, these efforts can bear a direct impact on fundamental decisions and relations within poor families in a way that may not be in the best interests of such families and of society as a whole. As mentioned, in the interest of sustainable human and social development, international attention and support must be directed to supporting microcredit as a development tool with the promotion and protection of the family unit in mind. To achieve this, the findings suggest that microcredit programs should not be expanded, taking undue advantage of their position relative to poor borrowers, to introduce antagonistic tensions into familial and marital relationships or to impose family reproductive norms or fertility limitation at mandatory borrower meetings. Rather, the use of microcredit programs in development should be limited to the nature of the potentially helpful tool that they are, i.e., for opening doors of economic opportunity for the poor by helping to alleviate the economic resources trap they so often face.
VI. Bibliography


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