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David Hulme and Karen Moore

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David Hulme and Karen Moore[1]
Institute for Development Policy and Management, University of Manchester

Introduction

Stop a man or woman on the street of any city in the 'developed' world, and ask them if they can name a development policy that works. They will probably think you are certifiable, unless they happen to be one of the minority of rich world citizens with an interest in development or aid, in which case there is a very strong chance they will say 'microcredit', and tell you that they have heard it works wonders in Bangladesh. In the public eye, and according to many analysts, microfinance has been successful. The microfinance industry now has global outreach, with more than 92 million clients reported in developing countries.[2] It is very difficult to find a Poverty Reduction Strategy that does not include microfinance as an element of national development.

The most common account is that the microfinance industry has its roots in Bangladesh with the Grameen Bank, and it is on Bangladesh that this chapter will mainly focus. According to this account the initial success of microfinance in Bangladesh has diffused across the world.[3] If we step back to the late 1970s this seems a most unlikely scenario. The precursors of microfinance – rural credit and small farmer credit – had a history of dramatic policy failure, charted by the Ohio State School. At that time, it was widely acknowledged that attempts to provide poor people (at that time synonymous with small farmers) with small loans had been a disastrous policy (see Adams *et al* 1984 and others). It failed to get credit to poor people, did little to improve agricultural yields and had high rates of default so that viable rural finance institutions could not be established. Poor people were viewed as not being 'bankable'. The high unit costs of transactions, the inability of poor people to repay loans and the political manipulation of such initiatives meant that development policy should withdraw from this domain and leave all banking to the private, for-profit sector.

This paper charts the overturning of this orthodoxy. After a brief discussion of the meanings of key terms, we provide a rapid history of the development of the microfinance industry in Bangladesh. Building on this, we examine the evidence of the success of the microfinance industry in Bangladesh – in terms of outreach, economic and social effects on clients, broader national-level effects, processes of institutional development, and the export and replication of the Bangladesh experience outside its borders – and touch on critiques of the microfinance paradigm.

In the second part of this chapter, we use the framework developed by Bebbington and McCourt (2005) to explore the reasons why microfinance has performed well. On one hand, there is the innovative design and specification of microfinance policy, the ways in which it has been implemented on the ground, and the processes of learning and adaptation underlying the broader development of the microfinance industry. On the other, there are the ways in which microfinance institutions have managed a favourable demographic, infrastructural and political-economic environment, and the crucial role of the exceptional ability and performance of both the leaders of the microfinance movement, and of the millions of poor people who make up its clientele. We conclude by briefly describing the 'diffusion' of microfinance around the world, and drawing out a number of general lessons about the processes that lead to successful development policy.

In this account, dvelopment policy is not seen as something solely about what governments do. Rather, as Bebbington and McCourt articulate, it is seen as any action that has – or is intended to have – large-scale developmental effects, such that it can be something involving both governmental and non-governmental organisations, as well as individuals, and their networks. As we detail below, while the microfinance industry in Bangladesh has been closely associated with the experiences of NGOs and largely remains within their domain, government has always 'participated' – to a relatively limited extent as providers and regulators, but more crucially in terms of creating an enabling environment for microfinance institutions, or at least not hindering them. Recent institutional and regulatory developments suggest that microfinance in Bangladesh has truly 'come of age' as public policy, with microfinance institutional approaches moving from 'parallel', to 'competitive substitute', to 'transforming the mainstream'.[4]

What is microfinance?

As noted above, in the post-war period farmers' lack of access to credit was identified as a main obstacle to the development of impoverished rural areas, leading to the establishment of subsidised government lending schemes and rural co-operatives throughout the developing world. However, it became apparent that these endeavours were not able to overcome the screening, monitoring and enforcement problems that restrict poor people's access to the formal financial sector. In most cases, the poor were not reached, nor were the institutions financially sustainable (see Adams *et al* 1984; Hoff *et al* 1993). Experimentation in 1970s Bangladesh with community development models – the renowned Comilla Model – is a case in point. Only isolated success was achieved, due to the model's disregard of the diversity of village social structure and the co-option of inputs and institutions by richer farmers (Chowdhury 1989; Wood 1992).

In order to confront the problems inherent in lending to the poor, there have been large-scale innovations in the provision of financial services over the past three decades. Generally, these new systems have been called microcredit – provision of small-scale loans to the poor – and more recently microfinance – provision of a range of the poor's financial service requirements, including credit, savings, insurance, and remittance management. The majority of microfinancial interventions have been targeted towards off-farm small and microenterprises (SMEs). Generally, those businesses which produce goods and services utilising few employees and limited capital are described as SMEs, although this basic definition masks a world of diversity. For instance, whereas microenterprises usually exhibit a home-based ownership and labour structure, small enterprises often hire outside labour.

In the developing world, innovation in microfinancial services has been most notably demonstrated through the credit-focused peer-monitoring model targeted at poor women developed by the Grameen Bank of Bangladesh. However, throughout low-income and marginalized communities in Asia, Africa and the Americas, models have emerged that represent important adaptations of the Grameen model, as well as some very different approaches to financial service provision.[5] Microfinance service providers (often known as microfinance institutions or MFIs), are most often non-governmental organisations (NGOs). However, there are also a number of government-sponsored MFIs, as well as statutory banks involved in micro-lending, and institutions that act as intermediaries between banks and borrowers. As noted, these 'of non-poor, for poor' programmes (Copestake 1995) take a variety of approaches to the provision of credit and, to varying extents, other financial services.

Furthermore, different types and amounts of non-financial inputs – from skills training and marketing, to organisational support, health and education, for example – are also provided by many MFIs in accordance with their particular goals.

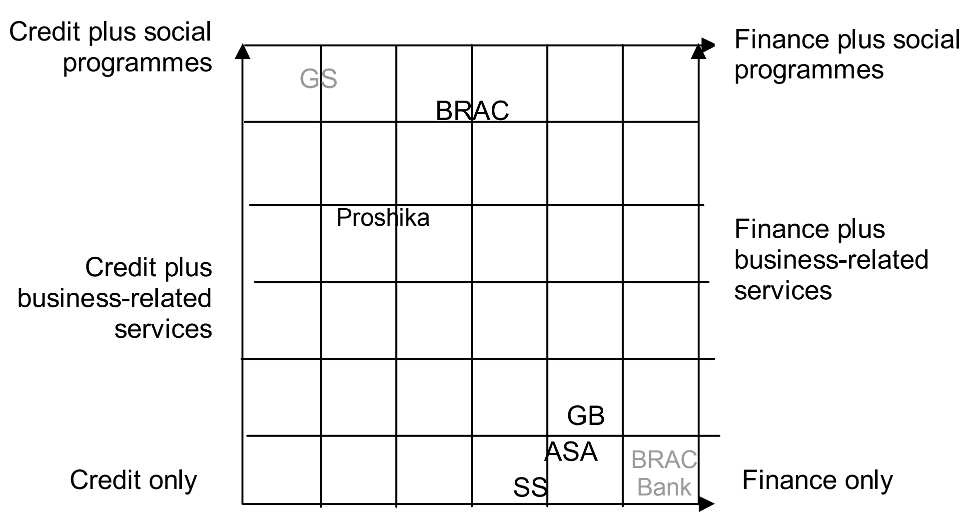
Poverty alleviation or reduction is an ultimate goal of most MFIs, with either direct or indirect links to immediate objectives. Objectives are in turn determined by the organisation's ideological outlook, in particular how the organisation perceives the relationship between poverty alleviation and access to credit. The ease with which a poverty-focused intervention can be carried out and the efficacy and/or efficiency with which it can be monitored and evaluated, are also very important factors. For instance, Hashemi (1997:250) states that Professor Muhammad Yunus, founder of the Grameen Bank,

> "discovered that while the credit market was the scene of the most brutal exploitation of the poor (with high interest rates leading to persistent indebtedness leading to forced sale of assets and destitution) it was also the arena where interventions were easiest for allowing the poor to break out of their cycle of poverty."

If financial liquidity problems are seen as a central reason for poverty, as perceived by Yunus, the organisation will more or less confine its role to the provision of credit – this has been called the credit minimalist approach. These organisations tend to evaluate their success in terms of financial indicators of outreach and repayment, although consideration of impact is certainly not unknown. If, on the other hand, poverty is viewed as a result of a more complex process, involving liquidity problems as well as other factors, the organisation's objectives will tend to incorporate the provision of a larger range of financial, economic, social and organisational interventions – this has been called the 'credit plus' approach. The immediate goal in this case is generally not service provision in itself, but rather the provision of services that will have a positive and observable impact on poverty (Copestake 1995).

In order to represent programme diversity, examples of Bangladeshi MFIs can be placed on a matrix (Figure 1). On the horizontal axis is the continuum between pure credit provision and broader financial service provision; on the vertical access we find the continuum between only credit or finance, credit or finance plus business-related services, and credit or finance plus social programmes.[6] Each MFI is introduced in Box 1.

Figure 1: Matrix of microfinance (and related) institutions in Bangladesh, 2006



GB = Grameen Bank; GS = Grameen Shikka; SS = Safe Save

Box 1 Major MFIs in Bangladesh

BRAC, originally known as the Bangladesh Rural Advancement Committee, is a 'finance-plus' NGO established in 1972. It houses a very large range of non-financial 'social' programmes. Zaman (*nd*: 51) notes that "the know-how and confidence to implement large programs arose, in some cases, from the experience of scaling up programs not related to microcredit. For instance, in the case of BRAC, its first major experience with a nationwide program came when it implemented an oral rehydration program to combat diarrhoeal disease. Thirteen million women were trained …"

Over the past decade in particular, it has also developed its range of financial services to include a greater variety of savings products, and credit for small business. More recently, in 2001 and 1997 respectively BRAC Bank and the Delta BRAC Housing Finance Corporation were established as commercial interests to meet the financial requirements of non-poor Bangladeshis. In 2001, BRAC established a university, and in 2002 and 2005 respectively, it started work in Afghanistan and Sri Lanka.

As of September 2005, BRAC was working in over 68,000 villages and over 4,000 urban slums in every district of Bangladesh. It claimed over 5 million members, almost entirely women, and a cumulative disbursement of over US$2.95 billion. Nearly 1 million children were enrolled in a BRAC school, and over 3 million have graduated. The NGO employed over 34,000 staff, over 62,000 community school teachers, and tens of thousands of poultry and community health and nutrition workers and volunteers. (BRAC At a Glance September 2005)

The **Grameen Bank** is a 'finance-minimalist' bank that offers a wide range of financial products, and limited organisational support. It was started as an action research project in 1976, and became a government-regulated bank through a special government ordinance in 1984. In 2001-2, all Grameen Bank branches began to operate the new, simpler and much more flexible 'Grameen Generalised System' (also called 'Grameen II'), which offers four types of loan products: basic, housing, higher education and struggling members (beggars) loans. There is also a facility for larger small enterprise loans, and a range of companies (commercial and not-for-profit) in the 'Grameen family'. This includes ***Grameen Shikka*** (GS), established in 1997 to promote the education of non-literate Grameen Bank members; provide financial support in the form of loans and grants for education; and use and promote new and innovative ideas and technologies for educational development.

In March 2005, the Grameen Bank was working in almost 51,000 villages. It claimed over 4.3 million members, over 95% women, and a cumulative disbursement of over US$4.7 *billion*. (Grameen Bank At a Glance March 2005)

Proshika, also established in 1976, started microfinance programmes in the 1990s. It matches member savings with credit and provides technical and marketing assistance where needed. Initially it fulfilled its social intermediation objectives through group formation and conscientisation rather than service provision, but it has moved into the provision of a wider range of social programmes. The present status of Proshika is unclear as it clashed with the government in 2002 and its registration, as an NGO, has been cancelled.

At the end of 2004, Proshika reported over 1.5 million active borrowers, 80% of whom were among the poorest. 65% of the poorest – or 0.8 million people – were women (Microcredit Summit 2005).

The Association for Social Advancement, known as **ASA**, was established as an NGO in 1978, with a focus on consciousness raising, group development and training among the rural poor. In 1991 it started its microfinance operations and recreated itself as a finance-only MFI. It is now the third largest MFI in Bangladesh, and offers a range of savings, credit and insurance facilities. Its non-financial activities are now limited to providing capacity development to small Bangladeshi NGOs and MFIs worldwide.

At the end of 2004, ASA had over 2.7 million active borrowers, about 90% of whom were among the poorest. 96% of the poorest – or almost 2.4 million people – were women. (Microcredit Summit 2005)

BURO, Tangail began as a five branch pilot project in 1989 in Tangail District, and established itself as an NGO in 1990. Today it operates in eight districts in north-central Bangladesh. BURO's savings system in particular and financial products in general were at the forefront of the movement to make microfinance products more flexible products in the 1990s.

At the end of 2004, BURO, Tangail had almost 220,000 active borrowers, of whom almost all were poor women. (Microcredit Summit 2005)

SafeSave was initiated as a research experiment in 1997 to explore sustainable methods for providing individual (i.e. not based on peer groups) financial services to poor and very poor slum dwellers in Dhaka. Female slum-dwellers were employed to make daily doorstep visits to clients. In 2002, SafeSave became a permanent, self-sustaining microfinance institution, and in 2004 reached operational sustainability.

SafeSave remains small – at the end of 2005 it was serving about 11,000 clients from eight branch offices – and geographically limited to urban Dhaka. In mid-2002 SafeSave established a rural experimental project called *Shohoz Shonchoy* (EasySave) in an area northeast of Dhaka. By the end of November 2005 Shohoz Shonchoy had over 1,100 clients, and was established as a cooperative from 2005. (SafeSave website)

A brief history of microfinance in Bangladesh – experiment, expansion, innovation[7]

In 1971 Bangladesh emerged as an independent nation, ravaged by war and natural disaster, populated by destitutes and a significant cadre of young activists full of hope, energy and commitment to reconstruction and nation-building. As the new government failed to meet the substantial challenges, even with overseas assistance, small non-governmental organisations emerged over the 1970s to organise relief and rehabilitation through community development. As noted above, however, élite capture of resources plagued community development experiments, so targeted approaches began to be tried.

The Grameen Bank was started as an action research project in 1976, when a Chittagong University team led by economics professor Muhammad Yunus began to lend small amounts of money to poor households in a few nearby villages. Borrowers were organised into small 'peer monitoring' groups of four or five people (soon becoming single sex groups, with a focus on women's groups) that met weekly with other groups to make loan repayments. Demand for credit grew rapidly and repayment rates were good, so the project was able to secure loans for on-lending from the state-controlled Bangladesh Bank and other commercial banks. In 1984, the Grameen Bank became a government-regulated bank through a special government ordinance, and remains the only body regulated in this way.

Over the next two decades NGOs grew in number and scale, and by the early 1990s the experiences of BRAC, Proshika and ASA, as well as the Grameen Bank, dominated development discourse in Bangladesh. The early 1990s in particular was a period of rapid expansion of access to microcredit. Procedures were by then established and standardised, and computerisation became more common, allowing the MFIs to intensify disbursement and repayment monitoring. The Grameen Bank and NGO MFIs used donor funds, and, increasingly, member savings and interest payments, to replicate new branches across the country. During this period, a wholesale financing institution (PKSF) also emerged (see below).

But by the mid-1990s it seemed that the very success of 'first generation' MFIs led by the Grameen Bank was hindering the development of new and different approaches to microfinance (Hulme in Rogaly, 1996). The movement of the integrated, socially-focused programming of ASA in particular, but also of BRAC and other NGOs, towards that of the finance-minimalist Grameen Bank was clear and noted by many.[8] Zaman (2004:51) notes that "the benefits of a narrow focus on microcredit during the expansion phase was that it kept costs low, operations transparent, and management oversight relatively straightforward."

From the mid-1990s, however, a range of 'second generation' innovations began to emerge, as it became increasingly clear that the poor required a wider range of financial services; that the existing services, particularly savings, needed to be made more flexible; that the needs of vulnerable non-poor micro- and small entrepreneurs were not being met; and that the poorest were often excluded from microfinance. This change in focus was based on feedback from the field in Bangladesh and internationally, and a large amount of research, conducted both in-house (by BRAC and Proshika researchers in particular), as well as by national and international academics and consultants. The emergence of SafeSave in 1997 as an experiment dedicated to investigating the possibilities of savings-led, individual-oriented microfinance, was a forerunner of the period.

As noted in Box 1, not even the Grameen Bank was outside this trend. In 2001-2, all Grameen Bank branches began to operate the new, simpler and much more flexible 'Grameen Generalised System' (also called 'Grameen II'), which offers four types of loan products: basic loan; housing loan; higher education loan; and struggling members (beggars) loan. There is also a facility for larger small enterprise loans, and a range of companies (both commercial and not-for-profit) in the 'Grameen family'.

What has been achieved by microfinance in Bangladesh?

Bebbington and McCourt (2005) define 'development policy success' as the tangible enhancement of the human capabilities of a significant population of otherwise disadvantaged people, whether through direct investments and improvements in their assets or through the improvement of the environments in which poor people pursue their well-being. It is clear that microfinance in Bangladesh at least reaches 'a significant population of otherwise disadvantaged people' – people with low and unstable incomes, little or no land or assets, low social status, and few if any alternative sources of financial services that are both accessible and affordable. The extent to which there has been a 'tangible enhancement of their capabilities' is of course a more normative and debated issue, but on balance the evidence suggests that this is the case, particularly through asset enhancement but also via positive effects on the socio-economic environments in which the poor work and live.

The numbers

The selection of which numbers to highlight is, of course, an equally normative decision, and unsurprisingly different institutions and networks, in Bangladesh and globally, choose different statistics to collect and publish.[9] Here we only touch on the immense scale of the Bangladeshi microfinance sector, in terms of numbers of MFIs and numbers of clients, both in absolute terms and in relation to the microfinance sector globally. We also note the dominance of a few large MFIs.

Most NGOs are involved in microfinance to a greater or lesser extent. According to the Credit and Development Forum (CDF), in 2002 there were as many as 1,200 MFIs; a more recent CDF estimate suggests that about 1,500 MFIs currently operate in Bangladesh, with another 500 entities soon to join the industry. Most MFIs – except those run by government bodies – consistently report repayment rates of 98% or more.

In 2002, about 13 million poor households had access to credit and other financial services through the 1,200 MFIs. This figure excludes over three million Grameen Bank borrowers, but also is likely to overestimate the total number of poor households with access to microcredit due to the practice of individuals and households borrowing from more than one source. On its website, PKSF notes that "There is debate … on the extent of overlap …<but the> general consensus is that a national average would be that 15% of all borrowers are borrowing from more than one MFI".[10] In this case,

> the effective coverage is about 11 million households. Out of 11 million households covered by <microcredit programmes>, about 80% are below poverty line and so about 8.8 million poor households are covered by <microcredit programmes>. With an estimated <number of> households of 26 million, out of which about 46% are poor households, the total number of poor households is approximately 11.96 million. Therefore, there is still scope of extending the coverage of microcredit programs to an approximate 3.16 million households.

From this estimate, it seems that at least 80% of poor households are covered by microfinance services. While the figure is certainly substantial, the assumptions around the proportion of MFI clients who are among the poorest are questionable and up for redefinition and debate.

According to data gathered by the Microcredit Summit Campaign, by the end of 2004, 330 'verified' Bangladeshi MFIs (which include the Grameen Bank, NGOs, MFI networks, government bodies, and commercial banks offering some form of microfinance) had 24.4 million active clients, three-quarters of whom were poor and two-thirds of whom were poor women (see Tables 1 and 2 below). The majority of borrowers are clients of the handful of very large organisations discussed above: the Grameen Bank, BRAC, ASA and Proshika. Of the remaining organisations, only twelve have over 100,000 borrowers, but many of the smaller MFIs join ASA, BURO Tangail and TMSS as the most profitable MFIs in South Asia (Tazi 2005).

Table 1 Bangladeshi MFI data verified by Microcredit Summit, in global context

	Number of MFIs	Number of poorest clients (millions)	Number of active clients (millions)	Proportion of active clients who are ‘poorest’	Number of poorest who are women (millions)	Proportion of poorest who are women
Verified Bangladeshi MFIs	103 (31%)	18.4 (31%)	24.4 (29%)	75%	16.1 (33%)	88%
Total verified MFIs	330	58.5	77.9	75%	49.2	84%
Total reporting MFIs	*3,164*	*66.6*	*92.3*	*72%*	*55.6*	*84%*

Source: Daley-Harris 2005 (Appendix 1 and personal communication with Microcredit Summit team).
Notes: Figures pertain to the end of 2004; figures in parentheses represent the proportion of total verified MFIs made up by Bangladeshi verified MFIs; ‘porest clients’ are those estimated to have been living on less than US$1/day, or in the bottom half of those below the national poverty line when they took their first loan; ‘active clients’ are those with an outstanding loan; figures do not take into account ‘membership overlap’ – those who borrow from more than one MFI.

Table 1 Top 10 Microcredit Summit-verified Bangladeshi MFIs, based on number of poorest clients

	Number of ‘poorest’ clients (31/12/04)	Number of active clients (31/12/04)	Proportion of active clients who are ‘poorest’	Number of ‘poorest’ who are women	Proportion of ‘poorest’ who are women
Grameen Bank	4,060,000	4,060,000	100%	3,897,600	96%
BRAC	3,630,000	3,990,000	91%	3,630,000	100%
Bangladesh Rural Development Board (BRDB)*	3,528,041	3,713,728	95%	2,399,068	68%
ASA	2,490,000	2,770,000	90%	2,390,400	96%
Proshika	1,236,104	1,545,130	80%	803,468	65%
Sonali Bank**	500,000	3,800,000	13%	365,000	73%
Caritas	251,273	284,947	88%	173,378	69%
Thenamara Mohila Sabuj Sangha (TMSS)	250,664	278,516	90%	238,131	95%
BURO Tangail	221,366	221,366	100%	219,152	99%
Rangpur Dinajpur Rural Service (RDRS)	175,713	228,199	77%	140,570	80%
TOTAL	**16,343,161**	**20,891,886**	**78%**	**14,256,767**	**87%**

Source: Daley-Harris 2005. *Notes:* *Government body acting as a network of MFIs not included elsewhere; **nationalised commercial bank.

Evidence of economic impact

There are three ‘pathways’ through which improved access to financial services can improve household food security and well-being (Zeller *et al*. 1997):

- Yunus’ now famous virtuous circle of ‘low income, credit, investment, more income, more credit, more investment, more income…’ draws attention to the primary process by which microfinance is envisaged as improving the economic well-being of borrowers: loans for investment in income-generating activities (Hulme and Mosley, 1996). This can be divided further into two streams.
  - First, additional capital can be used to enhance the level of the household’s productive human and physical capital (i.e. learn skills, hire workers, rent land, purchase tools and inputs etc.) – “this is the traditional argument for credit” (Zeller *et al*. 1997:25).
  - Second, with improved access to credit the risk-bearing capacity of the household can be increased such that riskier but potentially more profitable activities or technologies may be adapted.

- The second pathway has been identified as a positive effect on the composition of assets and liabilities. In terms of credit, this is chiefly manifest in a decreased necessity to obtain credit at high cost from informal sources (e.g. the notorious usurious moneylender), or to sell off productive assets at a low price in emergencies (see also Hashemi 1997, Todd 1996). Instead, storage of crops and other products for sale at a later time and a higher price may increase with improved access to credit.

- The third pathway is through consumption smoothing. This pathway remains generally discouraged by MFIs, as it is seen to detract from the potentially larger and more sustainable impacts of credit through income-generating activities. However, there is an increased awareness of the long-term importance of maintaining, for example, nutrition and education inputs to children, and Bangladeshi MFIs have adapted their procedures to take this into account.

Does it work? Have poor Bangladeshis economically benefited from their enhanced access to microfinance, and if so, to what extent? Over the past 15 years, much research been undertaken on this issue, from professionally-run large-scale impact assessments and village-level ethnographies, to journalistic and anecdotal field reports. Different definitions and different methodologies, to highly variable levels of rigour, have been employed (see Sinha 2005). Understandably, then, evidence on the economic impact of microfinance is often contested.

On balance, however, there is evidence that microfinance, on average and in general, does have a positive economic impact on clients in terms of income growth and reduced vulnerability, although the effects are often small (see Mayoux 1995), and all clients do not benefit equally. This is the finding of Khandker’s recent study on the effects of microfinance on poverty, and his review of previous studies therein. Referring to a joint World Bank-Bangladesh Institute of Development Studies research project in the late 1990s, one of the most comprehensive and rigourous impact studies to date, Khandker (2005: 266) finds “strong evidence that the programs help the poor through consumption smoothing and asset building” and that “microfinance helps women acquire assets of their own”.

Further, based on the analysis of panel data spanning the 1990s, Khandker reports that microfinance “raises per capita household consumption for both participants and nonparticipants” (ibid:285), increasing the probability that program participants will escape poverty. In 1991/2, the average return to women's cumulative borrowing was 18%, and by 1998/9 this had risen to 21%; this resulted in an annual decline of the poverty rate among programme particpants of five percentage points in 1991/2, and two percentage points in 1998/9. The lower rate in 1998/9, argues Khandker, is due both to diminishing returns to borrowing as well as to overall better economic conditions, as microfinance also has village-level 'spillover' effect, reducing both extreme and moderate poverty even among non-participants. Microfinance accounts for more than half of the overall observed annual poverty reduction of three percentage points among program participants, and up to 40% of the overall village-level annual poverty reduction of one percentage point. Khandker finds that for both participants and non-participants the effect of microfinance is stronger for the extreme poor compared to the moderately poor, and that the effects of female borrowing are much stronger than that for male borrowing.

If so many MFIs are involved in lending to so many poor, primarily rural Bangladeshis, and on average it helps them and their neighbours improve their economic position, why does the rural poverty rate remain so high? Partly, economic improvements that are significant but insufficient to lift a household above the poverty line do not contribute to declines in headcount poverty rates. Also, microfinance participation is high but nowhere near universal, and active participation is rarely continuous. And it is important to note that, modest as an annual two percentage point decline in poverty rates among rural microfinance participants seems, it still represents up to half a million people escaping poverty each year. Most importantly, however, the quantity and quality of growth remain crucial factors in determining levels of rural poverty (Sen and Hulme 2006), both directly and through constraining the gains achieved by MFI clients. Microfinance helps, but it is not a poverty reduction panacea. Other economic and non-economic interventions are also required.

Evidence of social impact

Although microfinance's initial objective was not primarily in the 'social' realm, if at all, most MFIs do now identify one or more social goals – women's empowerment, children's school attendance, awareness of and demand for health services, for example. Evidence of the social impact of microfinance in Bangladesh has also been mixed, but again, on balance, suggests that microfinance and the associated activities of MFIs have had positive social effects. Indeed, it often seems as if this fundamentally economic approach has performed best in the social domain. Khandker (2005:266) notes that the earlier WB/BIDS study "support the claim that microfinance programs promote investment in human capital (such as schooling) and raise awareness of reproductive health issues (such as the use of contraceptives) among poor families", and that microfinance helps women "exercise power in household decision-making".

It is widely recognised that access to credit can often foster social, psychological and even political empowerment. Credit services for the poor, and particularly poor women, reverse their systemic exclusion from access to public or private funds, thus altering systems of hierarchy and power (see, for example, Todd 1996). Access to alternative means of finance can reduce dependency on moneylenders and those who lend money; at the same time, access to institutional credit also can be used as a bargaining chip in order to secure informal loans. In general, a 'levelling of the playing field' occurs, allowing the poor to participate more effectively in the social, economic, and political workings of their community. Thus, Hedrick-Wong *et al*.'s (1997) assertion that credit provision in itself does not challenge any of the structural reasons behind poverty is not valid.

Structures of power at the household level are also affected. Credit becomes a bargaining chip for many women, in terms of both improving their fall-back position, and allowing them to ‘negotiate transfers’ with those who hold some form of social control. In the Bangladeshi context, traditionally women’s economic contributions to the household are in labour and kind, and as such are often ‘invisible’. Access to an institutional loan in cash “may induce a revaluing of women’s contribution to household survival”, such that women’s status within the household, her access to resources for herself and her children, and familial stability may all rise” (Goetz and Gupta, 1996:53-4). Similarly, widows with loans have been noted by Todd (1996:84) to have a stronger claim of support on sons who want access to credit.

Further, for a woman who has seldom if ever come into contact with a significant amount of money, an MFI loan can result in greater feelings of self-confidence and self-worth. Women can use credit as a bargaining chip with their male relatives to gain access to a congregation of community women – the credit group – and to any other services that an MFI might be offering in the way of skills training, education and health services. Thus a woman’s access to credit allows for her broader participation in community social networks and social programmes, in turn enhancing her wider opportunities and empowerment. Hulme and Mosley (1996:125-8) also suggest that “the creation of a regular forum at which large numbers of poor women can meet and talk represents a ‘breakthrough’ in the social norms of rural Bangladesh”, and certain reduction in the isolation experienced by many women.

In Hashemi *et al*.’s (1996) examination of the relationship between microcredit programmes and women’s empowerment, 1,225 married women under the age of fifty – members of Grameen Bank, BRAC, non-members in Grameen-served villages, and a comparison group – were observed and interviewed over a period of three years. Eight indicators are used as proxies for empowerment: (1) mobility, (2) economic security, (3) ability to make small purchases, (4) ability to make larger purchases, (5) involvement in major household decisions, (6) relative freedom from domination from within the family, (7) political and legal awareness, and (8) participation in public protests and political campaigning. Each of the programmes was shown to have a significant effect on four empowerment indicators (2, 3, 4, 7) as well as on the woman’s contribution to family support and to the composite empowerment score. Grameen Bank alone significantly affects women’s involvement in major decisions (5), and BRAC alone significantly affects mobility (1). Even those members with little or no control over their loans and income generating activities were shown to be more empowered than non-members.

National-level impacts

> “We have received a lot of things from the international community, but we have given the model of microcredit to the world”.
>
> \- Prime Minister Begum Khaleda Zia

Bangladesh is internationally renowned, not for its cultural heritage or beautiful natural environment of which its citizens are justifiably proud, but for poverty, floods, famine, disease, war, overpopulation, oppressed women, corruption, ferryboat disasters, water contaminated by arsenic. Bengali Nobel Prize winners – Rabindranath Tagore and Amartya Sen – are ‘claimed’ by India, the Royal Bengal Tiger is endangered, and we probably shouldn’t mention the cricket.

But Bangladesh is now also famous for the ‘invention’ of microfinance; for the commitment and insight of Muhammed Yunus and other NGO leaders; for the vast cadre of competent and honest NGO field staff who put the microfinance model of poverty alleviation into practice every day; and even for narrowing formerly huge gender gaps in economic participation, education and health[11] (arguably largely through microfinance and the other activities of NGO MFIs).

Employment creation by the MFIs themselves – above and beyond the effects on clients – has been enormous. We estimate that there are at least 50,000 credit officer-type positions across the country, and considering their own households, many times this number derive their livelihood from the provision of microfinance services. Below we discuss the crucial role played by the early 'social entrepreneurs' as creators and developers of MFIs and the microfinance industry in Bangladesh, but an important oft-overlooked effect of the current industry is its role in creating the *next* generation of social entrepreneurs.

Palli Karma-Sahayak Foundation (PKSF)

> "If you think a state-run organisation is always doomed to fail you are wrong. Better look at Palli Karma-Sahayak Foundation …" (Shahiduzzaman 1999)

The Palli Karma-Sahayak Foundation (Rural Employment Support Foundation) is GoB and an 'apex organisation', a parastatal involved in loaning GoB and donor funds (World Bank, USAID, ADB and IFAD) to its partner organisations (POs) for on-lending as microcredit. When PKSF was established by the Government of Bangladesh in 1990, it was a signal that microfinance was coming of age as public policy. While the organisation took a few years to establish itself, it is now a main means through which Bangladeshi MFIs access funds, and may be both the largest and most successful of such organisations globally. By the end of financial year 2003-4, the cumulative loan disbursement of PKSF POs at field level stood at over US$ 2.2 billion (PKSF 2004). These funds have been on-lended to 5.1 million borrowers, of whom 90% are women.

In financial year 2003-4, PKSF provided over US$58 million in loanable funds to 206 POs: three 'big' organisations (ASA, BRAC and Proshika); 195 small and medium ones; and, for the first time, eight 'pre-PKSF' organisations. PKSF POs operate in every district in Bangladesh.[12] This is an exceptionally large number of MFIs in the context of apex bodies in other countries, but there are still well over one thousand small MFIs in Bangladesh not funded through PKSF.[13] In 2002 PKSF funds made up only about 15% of the total microfinance industry in Bangladesh, compared to 37% Grameen Bank funds (Levy 2002; calculated from PKSF 2002). At the same time, PKSF funds made up 24% of the on-loanable funds available to NGO-MFIs, with 25% from (largely compulsory) member savings and 17% from 'service charge' (interest), and only 16% directly from foreign donors. In 2003-4, PKSF POs were able to maintain a loan recovery rate above 98% at the field level. In turn, POs were able to repay PKSF, including interest ("service charges"), as per schedule, such that PKSF was also able to maintain a loan recovery rate above 98%.

A large majority of PKSF credit was issued under the rural microcredit programme – 74% and 71% of all mainstream funds, and 69% and 62% of total funds in 2002-3 and 2003-4 respectively. Both urban microcredit and microenterprise credit are, however, growing in importance in PKSF's portfolio. PKSF also assists POs in strengthening their institutional capacity, in an attempt to enhance their sustainability and ability to repay loans. While PKSF claims that it favours no particular model of microfinance, instead encouraging innovations and different approaches based on experience, Matin *et al* (2000) note that it does in fact "prefer its partners to use the dominant product" – in this case, the Grameen-style group lending approach.

Many commentators note that the comparative success of PKSF is based upon the fact that its development was preceded by that of a large and stable microfinance industry, as well as on the strong and independent decision-making that its management is able to pursue, attributed to the prominence and commitment of individuals on its Governing Body and General Body (Levy 2002). In May 2005, the Managing Director of PKSF, Dr Salehuddin Ahmed, was designated the ninth Governor of Bangladesh Bank. He has committed to turning the central bank from a purely regulatory body into a “bank of the people devoted to alleviating poverty from the country”, with a focus on microcredit for small and medium enterprises (Independent 2005). If PKSF’s emergence in 1990 was a signal that microfinance was coming of age as public policy, Dr Ahmed’s appointment may be read as an indication that it has become part of mainstream public policy.

Export and replication

Bangladeshi microfinance models have been exported both formally and informally around the world. The Grameen Bank Replication Program of Grameen Foundation USA was established in 1999 to support institutions and social entrepreneurs throughout the world who seek to replicate the Grameen Bank approach, or scale up existing programs to provide financial services to the poor. Through 52 partners in 22 countries (including the US), the Grameen Foundation USA currently affects close to 1.2 million of the world’s poorest families (Grameen Foundation USA, 2004).

BRAC is unique as a ‘southern’ NGO that has now ‘exported’ itself to two other countries. In June 2002, BRAC Afghanistan was launched, and in May 2005 BRAC registered as an NGO in Sri Lanka, after first arriving in the country with a relief and rehabilitation programme after the tsunami. Of course, BRAC is not only globally known as a microfinance success – its non-formal primary education programme is particularly well-regarded – and BRAC Afghanistan and Sri Lanka, like their parent, does health, education and social development as well as microfinance. Nonetheless, by September 2003, BRAC Afghanistan had lent almost US$1 million to over 10,000 borrowers, with a 100% repayment rate.

The status of microfinance – particularly of the form developed in Bangladesh – as a ‘panacea’ in the development industry has also been exemplified by several international bodies.

- In 1996, the World Bank set up the Consultative Group to Assist the Poorest (CGAP), and committed US$ 200 million to MFI programmes globally. Dr. Fasle Abed, founder of BRAC, was a member of its first Board and, when CGAP decided to focus on poverty-reduction it recruited two Bangladeshi staff to spearhead his function.
- The Microcredit Summit in February 1997 successfully raised donor and commercial funds in a unified effort to reach 100 million of the poorest families by the year 2005 (now extended to 2015). It is headed by Professor Yunus of the Grameen Bank.
- Also in February 1997, UNDP and UNCDF launched MicroStart in order to foster transparency and good institutional and financial performance among MFIs. Since its inception, MicroStart has become operational or is being developed in 20 countries, and grants have been approved for 68 MFIs. ASA is a MicroStart International Technical Service Provider, and has been instrumental in MFI development in Nigeria and the Philippines as well as India.

Jain and Moore (2003:2) note several reasons that the ‘Grameen model’ has become the most important in terms of replication. Some of these are to do with the Grameen Bank itself – its relatively early development, and, as discussed below, its leadership, which “has been especially active and effective in publicising the virtues of the Grameen model – and in doing so in terms that appeal to … donors”. The other reasons are two do with characteristics of the two biggest global microfinance ‘contenders’. The BancoSol approach, it is argued, doesn’t seem to offer an alternative *rural* model, and its history is too grounded in recent Bolivian history. BRI’s success is too dependent on “the unusual capacity of Indonesian village-level authorities to monitor and influence individual households”. For many reasons of design and implementation discussed below, the Bangladesh experience – or at least its portrayal by those at its forefront – seems to have grabbed the attention of practitioners and policy-makers internationally as both simple and flexible enough to apply to different contexts.

Critiques

Not everyone in Bangladesh or beyond is happy with the ‘microfinance paradigm’. In some cases, the entire microfinance approach to poverty alleviation has been criticised, often from a neo-Marxist perspective, in terms of its focus upon the market and poor people’s financial liquidity rather than on the socio-economic structures that underlie poverty (see Mayoux 1995). Others note that the very success of microfinance as an industry is based on its failure to challenge the foundations of class structure and patriarchy, and that the home-based self-employment often emphasised by MFIs limit the potential for people to escape poverty and marginality.[14] A handful of Bangladeshi NGOs, such as Nijera Kori, have maintained their commitment to fostering radical social movements through awareness-building and mobilisation against instances of injustice and barriers of access to public entitlements – *without* recourse to providing microcredit (Kabeer 2002).

Most critiques today, however, focus on moving the models forward, not discrediting the approach in general. For instance, the degree of achievement of the oft-stated goals of poverty alleviation and empowerment of the poor, and the extent to which different groups benefit, have become important topics of research and debate. Hulme and Moseley (1996) have highlighted the overall lack of knowledge about those for whom microcredit is just ‘micro-debt’: loan defaulters and programme dropouts. An increased understanding of these groups has facilitated innovations in financial services for the poorest that emphasise flexibility, savings, and the central role of assets (Matin and Hulme 2003). Further, the perceived trade-offs between the achievement of goals of poverty alleviation and empowerment, the evolution of financially sustainable MFIs, and the provision of a broader range of financial and non-financial services to a more diverse clientele, have come under increased scrutiny by practitioners and scholars, as have the best ways of reducing costs to both MFIs and their donors, and to poor people themselves, and the role of technology in this struggle.

It is also important to note that there have been failures among Bangladeshi MFIs. These include the collapse of Gano Shahajyo Sangstha (GSS), a large NGO-MFI, due to allegations of misuse of donor funds and gender discrimination in 1999. It is also clear from fieldwork that an unknown number of poor people have suffered because of bogus NGOs. In such cases, tricksters establish savings groups with premises of loans once people have built up a savings fund. However, before the loans start the organisers disappear with the group’s savings.[15]

Explaining the Success of Microfinance in Bangladesh

How can the success of microfinance in Bangladesh be explained? Here we apply McCourt and Bebbington’s framework to try to identify and explore the key factors.

The Policy: Innovation, Design and Specification

As we saw in the previous section the initial stages of the evolution of microfinance in Bangladesh started as an experiment. Mohammad Yunus operated a small scale, action research project out of which emerged a number of lessons which he, and later others, applied to microfinance. Both the process adopted (experimenting on a small scale, improving the efficiency of the service once it became effective and phasing expansion over several years) and the 'design' features selected (see below) have contributed to success. The process appears to be similar to what David Korten (1980) described in a seminal work as a 'learning process' approach.[16]

There are many overlapping explanations of why the Grameen model worked. They explain how it produced a product that met client needs, developed relatively low cost delivery mechanisms and generated resources that permitted it to survive and expand. Here we extract findings from Hulme and Mosley (1996). Jain and Moore (2003) provide a critical approach to many of these explanations.

Targeting: In order to reach those most in need and/or those most able to effectively utilise credit to alleviate their own poverty, Bangladeshi MFIs have adapted combinations of direct targeting, using an effective indicator-based means test (e.g. a combination of effective landlessness and involvement in manual labour combined with being female), and indirect targeting, through self- and peer-selection. Bangladeshi MFIs allow for self-selection through a combination of initially small loans with market-level interest rates and strict repayment conditions, as well as time-consuming and potentially stigmatising membership obligations such as compulsory attendance at meetings.

Screening out 'bad' (non-poor and too-poor/non-viable) clients: Charging market related interest rates and client involvement in group selection.

Ensuring repayment: Intensive borrower supervision by field staff; peer group monitoring;[17] performance incentives to staff; progressively larger loan sizes; and, compulsory savings.

Reducing costs: Accessing no-interest or low-interest loans from donors; building up low cost client savings to on-lend; cost recovery by charging market-related interest rates.

Administrative efficiency: Working with groups; transferring transaction costs to clients; standardised products and procedures.

Thus, the perceived financial soundness of microfinancial services targeted at various subgroups of the poor – women, the landless, small business owners etc. – is not only based upon the replacement of subsidised credit by market-rate loans (indeed, most Bangladeshi MFIs continue to depend on subsidised donor credit, and few are sustainable). Equally important is the heightened ability of innovative targeting, screening and monitoring mechanisms. As Besley and Kanbur (1991:70) state, "…policy-makers can have their cake and eat it too – improved targeting means that more poverty alleviation can be achieved with less expenditure!"[18]

For an extended period of time (1985-1995) other MFIs in Bangladesh (especially BRAC and Proshika) copied this specification – with modifications and improvements. After 1995, there was a growth in MFIs that signed up to the Grameen Bank story – the poor are bankable and sustainable institutions can be created to meet their microfinancial needs – but adopted very different models. Prominent amongst these are ASA; BURO, Tangail; and SafeSave.

An important feature to note, in relation to the main innovations in Bangladesh and elsewhere, is the central role of public and non-governmental organisations (Hulme and Mosley 1996). While much of the performance of MFIs has to be understood in terms of them adopting 'private sector' practices – charging market-related interest rates, treating individual branches as cost centres, stripping out administrative costs – the for-profit sector has played only a small role in experimentation and effective innovation.

Implementation

Pilot projects around the world have shown that high levels of motivation and resourcing can achieve 'success' on a small-scale in virtually any field. Once the innovation has been identified the task that emerges is how to shift to service-delivery on a large scale (see Rondinelli 1993 for a discussion of scaling-up pilot projects). In Bangladesh there were three main components to this process.

First, was the scaling up of the Grameen Bank itself. This required the standardisation of its 'model' (cells of 5, groups of 30, 12 month loans, standard repayments etc.) the creation of an administrative structure that could steadily expand with only limited losses of effectiveness and efficiency and access to financial resources. Fuglesang and Chandler (1987) describe the model and the processes that permitted the Grameen Bank to expand without 'over-reaching' itself.[19]

In particular, Grameen Bank managed to create a human resources system that could turn out high numbers of effective fieldworkers and field level managers. Key elements of this included selection (take only new graduates who have not learned bad practices in the state or commercial sectors), practical training, a rewards package that matched the market, merit-based promotion, and the active promotion of an organisational myth. Professor Yunus fully understood the invisible, management benefits that arise from staff feeling they are part of a high performing organisation. Jain and Moore (2003) also note the importance of the relatively unhierarchical 'campus-style living' that Grameen Bank and many other MFIs promote, through which field staff are insulated from many of the pressures of both the people with whom they work, and their own families, such that they are able to focus on operating as an effective team.

As Grameen Bank expanded and developed its management information systems, based until the late 1990s on paper rather than disk, were sufficient to maintain its functioning. Access to financial resources for continuation and expansion was made possible by charging clients interest rates around twice those charged in government 'rural credit' schemes and through access to donor funds. There were so many donors in the 1980s and 1990s wishing to finance poverty reduction in Bangladesh, and so few 'good projects' to fund, that Professor Yunus was able to select the donors from whom he would take grants.[20]

The second path by which the microfinance industry was expanded was by competitor organisations copying the Grameen model (usually with some modifications). This is most obvious in the case of BRAC which operates a microfinance programme that is now of a similar size to the Grameen Bank in terms of numbers of active borrowers. Although BRAC staff like to argue that they invented their own model, it is clear that over the 1980s BRAC found it hard to compete with the Grameen Bank and it adopted the Grameen model into its 'integrated' rural development approach to produce a 'credit plus' model providing clients with group-based microcredit and technical advice.[21] Even more remarkably, Proshika – a consciousness-raising, peasant mobilisation NGO with origins in radical socialism – began to adopt the Grameen model in its programmes in the early 1990s. This created the basis for it to begin to rapidly expand (its clients seemed to prefer microcredit to consciousness-raising) and by the late 1990s microcredit was its major activity.[22] Countless smaller NGOs have followed BRAC and Proshika to such a degree that many observers are concerned that microfinance has crowded out other roles that NGOs should take on.

The third path to expansion has been through microfinancial innovation outside of the Grameen model. Organisations such as ASA, BURO, Tangail, and SafeSave have been persuaded that 'the poor are bankable' but have sought to provide them with products that more adequately meet their needs than the Grameen model. This has meant a greater emphasis on savings, individual rather than group-based approaches and greater flexibility in terms of loan size, repayment schedules and access to savings. To a significant degree the 'success' of the Grameen Bank encouraged these organisations (or more accurately their leaders) to seek to do better by undertaking their own experiments.

Learning and Adaptation

In the mid-1990s the Grameen Bank was sometimes accused of not learning, having locked itself into a standardised model and discouraging other organisations from moving away from the Grameen model. We can say this with confidence – as we were among the accusers. At the time there were some grounds for making such a case, but one must admit that the Grameen Bank and Professor Yunus have learned and innovated over the 1990s and early 2000s. In 2001-2 the Grameen Bank launched itself into Grameen II with a promise to transform its services to clients. The new 'products' include flexible loans, voluntary savings and micro-pensions. The latter are proving especially popular. Grameen has also been innovating in other areas including mobile telecommunications, reported to be especially successful (Sachs 2005).

Great Man, Great Men … Great (Little) Women

Organisational and policy success is often explained in terms of the exceptional ability and performance of leaders (Leonard 1991). This has been common for the Grameen Bank (there is a vast idolising literature on Mohammad Yunus). Similarly, both BRAC with Fazle Hasan Abed and Proshika with Dr Qazi Faruque Ahmed have been seen internationally as achieving great results at a massive scale. There can be no doubt that Bangladesh's microfinance industry has been inspired by Yunus and developed through other effective leaders.

However, the contribution of the Grameen Bank's (and other MFI) clients must also be recognised. For many observers of the country's MFIs there is a recognition of the heroic contribution that the clients have made. Millions of 'little' women (in terms of social status as well as height and body-mass index) have shown extraordinary agency and capacity to use MFI services, improve the well-being of their households, and repay their loans.

What then can be said for the practice of targeting women, towards which the Bangladeshi MFI community shifted in the 1980s? In many ways, the success of microfinance in Bangladesh is based on poor women's agency, and on their lack of agency (see Box 2).

Box 2 The success of microfinance, and the success of poor women

On the surface, the rationale behind the MFI focus on women is obvious. Women are often identified as among the poorest and most vulnerable people within low-income communities, with households often depending on their income-generating and expenditure-saving activities. It is surmised that providing women access to affordable credit can empower them economically in the same manner as men: through enhancing their ability to invest in productive human and physical capital as well as risky technologies, to avoid emergency sales of assets and usurious rates of interest, and to smooth consumption (Zeller et al. 1997). Further, it is important to note that fostering women's role as the 'brokers' of the health, nutritional, and educational status of her family, in particular that of her children, is also an important goal (Goetz and Gupta, 1996). Thus, women's participation in microfinance programmes has been considered instrumental, not only in terms of her own socio-economic well-being, but also that of her family.

However, two studies in particular (Ackerley 1995; Goetz and Gupta 1996) have challenged these ideas. According to these studies, women loanees in Bangladesh manifest a range of levels of control over loan-funded enterprises, returns from those enterprises, and responsibility for loan repayments – a significant proportion of women have limited or no control over loan-funded business and returns yet shoulder the burden of repayment. In this case, "the developmental objectives of targeting credit to women can be eroded if a direct relation between personal loan use and repayment responsibility is ruptured" (Goetz and Gupta, 1996:54).

Why then are women continuing to be targeted, despite this realisation? Analysts increasingly note another reason behind the targeting of women with financial services: as Rogaly (1996:106) succinctly puts it, it is not 'access for women', rather 'women are accessible'. Women have been found to be much better credit risks than their male relatives. In many countries women are relatively easy to locate, as they work in the home compound. Further, they are perceived as more susceptible to repayment pressure, both in terms of the social network and training opportunities they stand to lose, as well as the social norms in which they operate that make them easier to intimidate. This alternative rationale suggests that simply targeting women with microfinance does not necessarily imply that gender issues and gender relations have been adequately addressed (Johnson 1999). In this view, woman-targeted microfinance programmes harness gender norms such that women assume the costly job of ensuring repayment of male/household credit, increasing women's dependence on male decision-making and their vulnerability to male violence and economic shocks.

Mayoux (1995, 1998) distinguishes between three main paradigms of women-targeted microfinance provision:

- The *financial sustainability* paradigm is based on an instrumentalist, market approach which focuses attention on women's high repayment rates as a means to achieve the wider goal of assisting individual entrepreneurs to increase their incomes.
- The *poverty alleviation* paradigm targets women as among the poorest, and as more likely than men to spend increased income on their families.
- The *feminist empowerment* paradigm aims to enhance the bargaining power as well as the incomes of poor women, and sees gender equity itself as an inseparable part of any wider development goal. In this framework, without parallel interventions fostering women's access to markets, technology, decision-making structures, legal rights and social capital, the positive discrimination inherent in targeted credit ends.

Household power structures, however, can be affected by a targeted infusion of credit in several different ways, such that the line between strategic–empowerment–feminist and practical–instrumentalist–market becomes blurred. Credit can become a bargaining chip for many women, in terms of both improving their fall-back position, and allowing them to 'negotiate transfers' with those who hold some form of social control. In the Bangladeshi context, women's economic contributions to the household are traditionally in labour and kind, and as such are often 'invisible'. As discussed above, access to an institutional loan in cash may induce a revaluing of women's contribution (actual or perceived) to household survival, such that women's status within the household, her access to resources for herself and her children, and familial stability may all rise (Goetz and Gupta 1996).

Based on an analysis of the opposing perspectives on gender and microfinance in Bangladesh, as well as field data on a Bangladeshi MFI targeted to a relatively better off group of women and men, Kabeer (1998) constructs a much more nuanced argument. Her analysis not only reminds us of the importance of defining 'empowerment' in women's own terms, but also highlights the importance of the characters of individual women and men, as well as the circumstances of their poverty and how a financial service is delivered, in determining the impact of credit upon investment choices, asset accumulation and household decision-making structures. While many Bangladeshi woman certainly suffer a strategic disadvantage within households, one must also recognise that in many cases the household is conceived as a 'joint venture' in which women and men have different rights and responsibilities in terms of asset control and decision-making. The idea of separate control over separate earnings may not be very useful in this context (Todd 1996).

It is important to recognise that women's ability to use financial services in the way they wish can be both constrained and facilitated by the gendered socio-economic relations that operate at the household level as well as in business and the local and national communities. "There is an extremely fine line between recognising constraints on women's freedom of manoeuvre and reinforcing the terms of those constraints by taking them as givens" (Ibid., 59).

A Favourable Environment

Bangladesh is often perceived as a difficult environment to work in. With poor governance, catastrophic flooding every few years, and high levels of corruption there are many systemic and unpredictable challenges to deal with. But, there were also a number of environmental factors that supported the microfinance industry. In particular:

- The country's high population densities make it possible to drive down the costs of service delivery.
- The basic infrastructure for service delivery (bank branches with security facilities, roads) are available in all but the most remote areas.
- There was, and continues to be, a regular supply of new university graduates with few other employment opportunities.
- Levels of law and order mean that fieldworkers and bank branches are relatively secure[23].
- Foreign aid donors have had large budgets available to support 'viable' projects.

The Political Economy of Success

Identifying and establishing a successful policy (or organisation) requires much more than simply getting the right 'design'. In particular, it requires a careful and continuous analysis of the domestic and international political economic environment to ensure that the policy can function and that groups who might oppose the policy can be co-opted and out-manoeuvred.

As a starting point one must note that the human agency behind the early Bangladeshi MFIs grew out of the political economy of Bangladesh in the early 1970s. Professor Yunus was one of many young Bangladeshis who observed the terrible poverty and deprivation of the country at that time – after the War of Liberation and the floods of 1974 – and decided that they had to do something. Similar sentiments informed the founders of BRAC, Proshika, ASA, RDRS and many other agencies. While we know the names of the leaders of such initiatives, this socio-political environment of the early 1970s also shaped the actions of thousands of others of Bangladeshis who became the senior and mid-level staff for poverty reduction initiatives. The burst of human agency, energy and creativity that swept across Bangladesh at that desperate time created capital, in terms of both knowledge and institutional capacities, upon which the country continues to draw today.

With specific reference to the Grameen Bank, it has to be observed that it has been skilfully managed since inception so that it is both embedded in Bangladeshi society and able to leverage changes in that society. Professor Yunus has been able to use and build on his personal status, as a member of Bangladesh's elite with a PhD from the USA, to steer Grameen Bank around potential obstacles in the country's political economy. While the country was under authoritarian rule, Yunus negotiated Grameen Bank's progression to be a statutory organisation. This gave Grameen Bank the freedom to escape having to lend as part of a patronage system, to set its own interest rates and to be officially regulated in ways that did not constrain the institution. Subsequently, Grameen Bank has been able to avoid challenges from the country's various democratic governments – BNP, Awami and Coalition – by careful management. This involves closely following politics, managing a set of elite relationships and a public image so that Grameen Bank is prominent but non-controversial and creating an image of being non-political.[24]

Internationally the Grameen Bank's image has also been effectively managed so that it has garnered support from many different bases. Indeed, Grameen has been foundational in creating a global image of microfinance as a policy that can appeal to both right of centre and left of centre ideologies. Its talk of micro-entrepreneurs, micro-enterprise, investment, loans not grants and cost recovery garnered support from those who see private sector development as the pathway out of poverty: this was much better than social grants and welfare. On the other side of the political spectrum, its talk of the agency of the poor, group formation, participation, empowerment and women's rights met with the approval of those who believed social change was the way forward. By telling two stories at the same time, but with different mixes for different audiences, both the idea of microfinance and the image of the Grameen Bank were able to appeal to a wide audience and avoid criticism from all except the more extreme elements of the right and the left. A broad consensus was achieved that permitted national governments, bilateral and multilateral donors and NGOs to support the Grameen Bank and microfinance.

This consensus did not mean that everyone was happy about the Grameen Bank and it has faced opposition. Domestically, the greatest threat has been from Islamic fundamentalists who see it as challenging the position that women should play in a 'truly' Islamic society and abrogating the prohibition of usury. At times this has been a physical threat, with offices attacked and field staff threatened and harassed. However, the Grameen Bank (and other MFIs and NGOs) have countered this by making the case that they are not anti-Islamic and honour all the laws of the country, and by encouraging government to take stronger action against fundamentalists. In the mid to late 1990s many MFI leaders and staff felt that fundamentalism could become a major threat. This position seemed to have moderated but, in the last couple of years, it has revived.

A further challenge has come from the media and especially journalists with socialist or far left leanings. Bangladeshi newspapers have regularly issued a challenge to the MFIs to (i) explain in detail what has happened to all of the foreign aid they have received, and (ii) respond to the claim that their activities have weakened the role that the government plays in poverty-reduction. Such arguments may have fuelled elite and middle class debates, but they do not appear to have created a practical threat to the Grameen Bank or the country's microfinance industry. Clients have not withdrawn from MFI services, government has not tightened up regulations or controls,[25] and foreign donors continue with support (although Grameen Bank has not requested any donor funds since 1995, nor received any new donor funds since 1998).

Finally, within the Grameen Bank, management have had to carefully handle their relationships with staff. In the early 1990s there was a strong push from Grameen Bank employees to form a trade union. Professor Yunus and senior managers were concerned about this. It would clearly give them less control over staff terms and conditions and, as they pointed out, most trade unions in Bangladesh are dysfunctional: they do not serve their members interests or their customers. As with so many of the process ingredients that explain success, the exact means by which this issue was dealt with are undocumented but the outcome is clear. After negotiations the staff agreed to having a 'Staff Federation' which created a channel for two-way communication between staff and management, but which did not have the full status of a trade union. According to Grameen Bank this meant that poor clients continued to have the upper hand in determining policy. According to trade unionists and left-wing academics it meant that the legitimate rights of workers were not honoured.

Beyond Bangladesh

As mentioned earlier, the ideas and methods of the Grameen Bank have not simply diffused across Bangladesh, they have spread across the world. The global image of microfinance is shaped by Grameen Bank and there are at least 52 direct Grameen 'replicates' operating worldwide, including in the US. Professor Yunus' office has numerous photos of meetings with world leaders – Bill and Hilary Clinton take pride of place, he has received numerous international awards and – when the media look for a poverty reduction success story – they usually turn to Grameen Bank and/or an MFI influenced by the Grameen Bank.

Formally, there are two direct mechanisms through which such policy transfer operates. First, the Grameen Bank runs scores of international seminars each year that train people from other countries to learn how to replicate Grameen Bank. It provides field visits, manuals, puts participants into a replicator's network and can even provide start up grants through linking to the Grameen Bank Replication Program. The Grameen Trust's newsletter (*Grameen Dialogue*) lists 131 partner organisations in 35 countries (April 2005) with a client base of over 1.8 million in October 2004. The second mechanism is the Microcredit Summit.

Conclusion

We conclude that microfinance has been a policy success in Bangladesh. This has probably been the case in other places, but nowhere else is the evidence so clear. This is a firmer conclusion than we reached independently in studies eight to ten years ago. Why is that? Partly because we have mellowed and perhaps are not as idealistic! Partly because microfinance, its institutions and impacts, have stood the test of time and has extended and expanded what it is doing and is achieving. And partly because the microfinance sector in Bangladesh no longer exaggerates the claims about its impacts as much as it did ten years ago – at that time MFI leaders and staff insisted that all their members were 'the poorest of the poor', that every loan was a success for the borrower, and that the gender and class empowerment being generated was rapidly producing a more egalitarian society.

But, has microfinance been a public policy success? As we pointed out earlier, this depends on what you mean by public. It has certainly been a success in terms of the broader concept of 'public action' that Amartya Sen floated in the early 1990s (and then seemed to abandon). It started as a public action project – Professor Yunus and his colleagues were members of a civil organisation (a university), but also public servants. They were financed by public monies and NGOs. The Grameen Bank became a statutory body but the 'replicators/adaptors' that scaled up microfinance were mainly NGOs and thus part of civil society. Subsequently, a major vehicle for scaling up has been the PKSF, a public-private partnership. Behind much of this activity, both innovation and replication, has been donor resources – from the public sector in wealthier countries. All of this is set in a regulatory and macro-economic framework that has been supportive (or at least has not been too disruptive) and is part of the public sector. We can label this as networks, co-production or whatever but two things need to be noted.

First, the main players are state and/or civil society – this is public action. Second, the private-for-profit sector has played only a minor role in this success. Private sector concepts – profit/loss, unit costs, performance related pay, market based interest rates, competition – have been an important part of the story, but for profit organisations have played only a minor role. The case Hulme and Mosley (1996) made ten years ago – that commercial businesses do not invest in creating pro-poor innovations, that they are followers but not leaders in service provision for the poor – still seems to hold.

Finally, why has microfinance been a policy success in Bangladesh? We agree with Zaman (2004) that visionary leadership, a supportive (or more accurately, not too unsupportive) policy/regulation environment, effective action by donors, a suitable physical and social environment and, recently, PKSF to provide scaling up finance and improve industry standards have been key factors. We would also add that the visionary leadership needs not only to be technically able but needs to have the skills and social resources to manage the domestic and international political economy, and that the institutional processes have to permit learning and allow effective implementation systems to be operated. It must also be noted that millions of 'little' women (see earlier), the clients, have made microfinance a success.

But is there any over-arching explanatory framework or is 'success' largely about a list of attributes? The best we can find is Uphoff's (1992) concept of 'social energy'. This postulates a process by which dynamic leaders, and the ideas and ideals they promote, diffuse through society gaining momentum and persuading individuals and organisations to take on different values and do things differently. The spark of social entrepreneurship that Yunus set off has literally energised scores of other leading Bangladeshi social activists and thousands of others to try to get microfinancial and other services to poor people. The diffusion process has moved into the public sector through PKSF and, with the appointment of the Director of PKSF as governor of the central bank, this social energy seems set to sweep into the financial sector more widely. Maybe it will stop here. But, maybe not. Providing services to poor people didn't used to be an 'exciting' or 'sexy' activity – microfinance in Bangladesh has helped to make it 'sexy'. That is a great achievement! And a 'policy success' in the 'failed field' of poverty reduction, in a 'basket-case' country like Bangladesh, shows the agency of the poor, and remains inspirational.

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Endnotes

[1] Corresponding author: David.Hulme@manchester.ac.uk. The authors gratefully acknowledge insightful comments from Anne-Marie Goetz, who acted as discussant at the ESRC-funded *Seminar on Policy Success in Developing Countries (*Institute for Development Policy and Management, Manchester, 20 May 2005) at which this paper was originally presented, as well as other participants in this seminar. Comments received from Stuart Rutherford, Malcolm Harper and others at a presentation made to the Microfinance Club (London, 5 October 2005) are also acknowledged. David Hulme's works for this paper were supported by the ESRC's Global Poverty Research Group (GPRG).

[2] According to *The State of the Microcredit Summit Campaign Report 2005*, at the end of 2004, 3,164 microcredit institutions reported reaching 92,270,289 clients, 66,614,871 of whom were among the poorest (<US$1/day, or bottom half of those below national poverty line) when they took their first loan. Data from 330 institutions, representing 87.7% of the poorest clients, was verified by the Campaign.

[3] This is not to deny the importance of much earlier – often centuries old – innovations in informal and formal financial services and systems by and for low income people in, for example, West Africa, Europe and South Asia, or that today's microfinance practitioners, policy-makers and academics should not learn from these experiences (see Siebel 2003). It does argue, however, that the current global dominance of microfinance as a development intervention is largely based on the Bangladesh experience over the past three-and-a-half decades and, even more so, commonly *perceived* as emergent from the Bangladesh experience.

[4] Thanks to Anne-Marie Goetz for suggesting this terminology.

[5] Important centres of innovation include ACCION International in Latin America (and now Africa and the United States), Bancosol in Bolivia (see Rhyne 2001), and Bank Rakyat Indonesia (Robinson 2002).

[6] An important third axis is the continuum between programmes oriented to the individual, and those with a more collective focus – this distinction is far from straightforward, however, and is largely beyond the scope of this paper.

[7] This section draws heavily on an excellent article by Hasan Zaman (2004).

[8] See for example Buckley (1996:280-1); Todd (1996:160) and Wood and Sharif (1997:35).

[9] For example: borrowers, savers, or total clients (members, customers); active, total, or cumulative clients; the poor or the poorest (with all the problems of definition implicit in these terms), or all clients (with an assumption that anyone using MFI services is at least significantly excluded from other forms of finance); women, men or both; total credit disbursed or total deposits collected; repayment rates; a range of financial performance indicators including productivity, efficiency, leverage and profitability; and, not least, economic or social effects at the household level.

[10] A higher estimate is given by Rahman (cited in Tazi 2005), who suggests that "it is widely believed that overlap consitutes up to a third of reported outreach".

[11] For example, the World Economic Forum's 2005 global gender gap ranking places Bangladesh 39 out of 58 countries, above India (53) and Pakistan (56), but also Italy (45), Greece (50) and Mexico (52). It is ranked 18th on economic participation, surpassing the UK (21) and US (19), and 37th on both educational attainment and health and well-being, surpassing Austria (38) on education and the Baltics (44, 46, 48) on health and well-being.

[12] Reflecting the industry as a whole, however, MFI activity is still highly concentrated. There are nine districts where only one PKSF PO operates, and 24 districts with 8 or more POs operating. In Dhaka district, 16 POs operate.

[13] Levy (2002:14) noted that "little more than 10 percent of MFI applications for a first disbursement are accepted."

[14] Thanks to Anne-Marie Goetz for her elaboration on this point.

[15] After four years in government administration GSS was cleared of the charges and has recently resumed its educational activities on a limited scale (PREM 2005).

[16] Indeed, 'learning by doing' has come to be considered the mark of the successful (yet modest) Bangladeshi development organisation – BRAC was perhaps the first official 'learning organisation', and even PKSF has adopted the description.

[17] Jain and Moore (2003:9) rightly note that neither 'strong' forms of group liability (i.e. group members assume the debt of defaultors), nor its weaker form (i.e. group denied further loans when a member defaults), are commonly enforced in practice, and that the group acts more as a means of building on social norms to instil a culture of discipline and financial responsibility.

[18] They continue, however, and point out that "Alas, the real world is not quite so straightforward."

[19] Do note that these authors were great fans of the Grameen Bank and tend to describe the Grameen Bank practice as if it were the perfect implementation of its policies.

[20] Professor Yunus fell out with one of his early sponsors, IFAD, for reasons that are not clear. This was not a problem as he simply moved onto new donors.

[21] Most notably in chicken rearing (for eggs and meat) and moriculture/silkworms. The chicken rearing has proved highly successful. The moriculture/silkworms were technically effective but collapsed in the face of 'cheap silk' from China.

[22] There is a fascinating, but undocumented, tale behind Proshika's microfinance success. Proshika moved into microfinance with a senior management that had little relevant experience – being more acquainted with revolutionary theory than with double entry book-keeping! However, skilful 'technical assistance' inputs from its donor consortium (and especially DFID) led to the installation of a highly effective financial reporting system that guided field staff and senior management behaviours.

[23] Some recent targetting of branch offices of large NGOs by terrorists espousing that Bangladesh move to strict forms of Islamic law suggest that this may change, but as yet has done little to undermine NGO activities.

[24] This contrasts with Proshika which took a political position that led to animosity with the present government. Its foreign funding has been blocked and the organisation attacked and raided at the local and national levels, and it is now only partially functioning.

[25] This is beginning to change. In 2000, GoB formed a Microfinance Research and Reference Unit (MRRU) based in the Bangladesh Bank. Its high level membership, drawn from government, PKSF, Grameen Bank and BRAC, has worked to develop a regulatory framework for all MFIs. The framework is likely to include an interest rate ceiling, and PKSF has already been taking steps in this direction. In early 2006, reports in the media suggest that the framework will soon be passed to legislators for approval. The appointment of the PKSF director to the post of governor of Bangladesh Bank will likely facilitate this process.