CONTENTS

CHAPTER 1

THE INTERNATIONAL ROOTS OF MICROENTERPRISE DEVELOPMENT

> Conventional banking institutions do not make loans to the poor, especially to rural women. The bankers I met laughed at me.
> —YUNUS (1997)

> After the bank's eighteen years in business, one could estimate that conservatively half a million families were able to throw off a life of destitution and begin living with a modicum of honor and dignity as a result of intervention from the Grameen Bank.
> —COUNTS (1996)

> [T]he development community is riding the microcredit band-wagon given that it is consistent with the dominant paradigm of self-help, decentralization . . . and given that structural adjustment programs have forced the poor into self-employment.
> —MCMICHAEL (2000)

A major source of the excitement surrounding microenterprise development has been the Grameen Bank in Bangladesh (Ryan 1997; Brill 1999). The statement by Mohammed Yunus, the bank's founder, describes his struggle to offer microcredit in the 1970s. The second statement captures the popular acclaim surrounding the bank and the hopes for future microenterprise development. Many U.S. MDPs were modeled after famous southern programs such as the Grameen (Wahid 1993a; Counts 1996). Despite praise for these programs, MDPs also have serious critics; the third statement expresses the concern that MDPs direct too much attention toward individual self-help and distract from structural economic conditions that promote and perpetuate poverty.

This chapter addresses one of my first questions as a microenterprise development volunteer: Where did all these U.S. programs come from? The answer that I typically received to this question was that U.S. MDPs were inspired by successful programs in developing countries. In other words, the northern industrialized world had imported them from the southern hemisphere—a unique turn of events given that development programs have usually moved in the opposite geographical direction. Only one U.S. provider told me that she started her program before she had even heard of the famous Grameen Bank.

When I took a more in-depth look at microenterprise development history, I found that this south-to-north importation thesis was not the whole story. The circumstances that led to the formation and spread of MDPs were far more complex: they entailed the importation of ideas from north to south as well as from south to north. Tracking the history and sources of MDP innovations locates microenterprise development squarely within the context of the conditions and policies of the new economy. An examination of the emergence and practice of southern MDPs reveals not only program successes, but also fundamental contradictions in microenterprise development.

CONTEXT OF MICROENTERPRISE DEVELOPMENT

MDPs were developed to extend business credit and training to the "poorest of the poor" in Africa, Bangladesh, and Latin America (Microcredit Summit 1997; Rogaly 1996). The decades of the 1970s and 1980s were times of worldwide economic recession and government fiscal shortfalls. In the 1980s and 1990s, modern MDPs became recognized as viable mechanisms for dealing with some of the human economic tragedies of the crises. MDP strategies were consistent with the neoliberal policy agendas of minimal government and market-based solutions that also came to predominate during this period. These programs were to address the growing problems of poverty and unemployment that continue to characterize life in the new economy.

From the 1970s on, southern nations were faced with increasing debts to industrialized countries that they could not repay. During the 1980s and 1990s, international financial concerns and global financial regulatory agencies—such as the International Monetary Fund (IMF) and The World Bank—pressured the governments of southern nations to sharply curtail spending, ease international trade regulations, and privatize nationally owned banking institutions and industries (Jonakin and Enriquez 1999; McMichael 2000). These requirements were consistent with a neoliberal economic ideology of smaller government and the elimination of trade restrictions. This neoliberal agenda, typically referred to as a structural adjustment policy, entailed massive layoffs of state workers and the curtailing of social investment spending for education, health care, and the like (Teeple 2000). The resulting withdrawal of many southern hemisphere governments from the public sector has encouraged an increased reliance on NGOs and community-based services for the poor (Desai 2002).[1]

Even before recent globalization and structural adjustment regimes, decades of export-oriented production had precipitated declines in small-scale family-level agriculture oriented toward local consumption needs (Roberts 1978; De Janvry 1981). Available credit and agricultural support programs were oriented to larger-scale agribusiness farms. Impoverished rural populations migrated to the cities in search of employment. Proponents of structural adjustment policies predicted that the liberalization of trade and financial markets and the expansion of private banking would eventually counter the ill effects of shrinking state expenditures and loss of jobs. However, continuing declines in agriculture and the resulting migration to urban areas outstripped the formal employment opportunities there.

The jobs that became available in these areas failed to offer either improved working conditions or economic security. Trade liberalization requirements demanded that government minimize labor, environmental regulations, local industry protections, and other barriers to international trade. These rules limited worker pay and safety protections and promoted barriers to collective organizing. Many new work opportunities entailed more informal subcontracting work arrangements rather than permanent employment. The constant global search for cheaper labor and the increased mobility of work sites meant that even those limited employment opportunities created by international trade might vanish at any time.

Although southern nations always maintained a large informal sector, structural adjustment policies and the increasing decentralization of production produced a population explosion of informal workers. Individuals engaged in the informal subcontracting of formal sector activities (e.g., in garment manufacturing) made up a large sector of this group, but many also turned to more autonomous informal entrepreneurial ventures (Portes and Sassen-Koob 1987; McMichael 2000; Agadjanian 2002).

Concerned about growing poverty and shrinking government resources, development specialists began to advocate the extension of credit to stimulate growth among small informal enterprises. They hoped that such assistance would stabilize impoverished communities, and encourage bottom-up economic development without expensive state-managed help and employment programs (Wahid 1994; Yunus 1997).

For-profit financial systems failed to deliver basic savings and credit to low-income customers, small farms and other small businesses, especially to women entrepreneurs (Light and Pham 1998). Banking services were inconvenient and costly due to hefty service charges, minimum balance requirements, and restricted withdrawal policies. Small consumer and business loans (e.g., less than $25,000)[2] were rarely offered because traditional banks claimed that these loans were too costly to administer (Yunus 1997). Individuals without sufficient collateral or with weak credit histories seldom received loans (Otero and Rhyne 1994). Thus, the poor typically relied on more costly informal financial services such as loan sharks.

Microfinance programs operated by nonprofit NGOs promised to fill the gap in financial services to the poor (Otero and Rhyne 1994; Jonakin and Enriquez 1999). Microfinance proponents argued that the failure of the commercial banks to serve poverty-level clients prevented the poor from accumulating assets. They associated the lack of assets with chronic poverty and a sedimentation of disadvantage (Oliver and Shapiro 1995; Yunus 1997). Microfinance services offered flexible checking, savings, and lending options tailored to poor clientele. These services allowed smaller minimum required balances, minimal service charges, and flexible withdrawal options. Loans were typically for smaller amounts, offered more flexible repayment options, and minimized collateral requirements. Some programs were partially or completely owned by individual clients or by their communities.

With their focus on training and lending to very small businesses, MDPs can best be considered a subset of microfinance organizations. However, some microfinance programs include MDP components and some MDPs include savings and consumer-lending services. Unlike many modern MDPs, especially those emerging in the United States, early microfinance organizations were more focused on lending and savings activities than on business training, technical assistance, or collective empowerment functions. Thus, microenterprise development activities are distinctive but still related to other microfinance and development services. Several innovations associated with modern MDPs were actually inspired by the practices of earlier microfinance groups.

EARLY MICROFINANCE ORGANIZATIONAL FORMS

Although the past two decades have seen a rapid growth in microfinance and microenterprise development services, such efforts are not entirely new. Many modern MDPs resemble microlending and credit cooperatives developed in nineteenth-century Europe for small farmers, entrepreneurs, and traders (Hollis and Sweetman 1998a, 1998b). Some programs were charitable concerns; others operated for profit. There is also an extensive history of lending programs aimed at small farmers in southern countries that date to the early 1900s. These programs included direct loans, credit cooperatives, specialized rural development banks, and regulations that required banks to lend a portion of their loan portfolio to small farmers, either directly or indirectly through development banks (Adams and Von Pischke 1992). The loans made by development lending programs from the 1950 through the 1980s were often subsidized by government agencies or other NGOs. These loans were regarded as failures because many ended in default and often ended up in the hands of prosperous rather than poor farmers (Jonakin and Enriquez 1999). Defaults were blamed on generous subsidies provided to lending organizations, subsidies that led them to operate in an inefficient and unbusinesslike manner (Morduch 1999).

Many of these earlier lending programs have disappeared, but two early forms of microfinance organizations remain popular around the world. First, the most informal and perhaps longest lasting microfinance organization form is the rotating savings and credit association (ROSCA). ROSCAs are widespread in the southern hemisphere and popular among some immigrant groups in industrialized nations (Laguerre 1998; Light and Pham 1998). ROSCA members contribute a regular amount each week or month, and group members take turns borrowing the money at no interest. Because they are known and trusted by each other, ROSCA members also provide social support for one another in consumption and business pursuits. Their informality and resource requirements mean that ROSCAs serve people with dependable incomes and social ties; they are unlikely to serve the very poor or destitute.

A second traditional form of low-cost lending and savings services is the credit union. Credit unions are cooperative financial institutions that began in southern hemisphere countries in the 1950s and are popular in industrialized nations (see Magill 1994). Credit unions are legally constituted financial institutions that are, for the most part, chartered and supervised under national cooperative legislation. They provide savings and credit services to their members. Membership has traditionally been defined in terms of some affiliation shared by all members (e.g., employment or geography). Credit unions are organized and operated as cooperatives. There are no external shareholders; the members are the owners of the institution, and each member has a vote in the organization. The policymaking leadership is drawn from members and, in new or small credit unions, these positions are unpaid. Individual credit unions may be affiliated with a national league, and there are regional associations of leagues called confederations. The apex organization for the credit union system is the World Council of Credit Unions (Magill 1994).

Although both ROSCAs and credit unions have been significant in offering savings and lending services to those who might not otherwise have access, they tend to serve the poor who are better off. The ROSCA form is limited in its scale and longevity of services. Although far less limited in scale and longevity, credit unions have not played a large role in microenterprise lending because their lending practices tend to be conservative and they do not offer training and technical assistance. Nevertheless, the modern MDP movement has built on the experiences of these past microfinance programs to nurture a grassroots dimension that enhances its popularity as a poverty-alleviation and economic development strategy.

MODERN MDPs AS A STRATEGY FOR ECONOMIC DEVELOPMENT

Microenterprise development is an important component in the reframing of international development discourse (McMichael 2000; Poster and Salime 2002). Throughout much of the twentieth century, development policies were focused on large-scale, centrally planned ventures that usually served the better-off people in southern countries (Visvanthan et al. 1997). Many programs provided goods and services, especially modern technology, to advance the development of poor countries. Historically, although this development discourse adopted a gender-neutral stance, producers were assumed to be men. Men received the direct benefits of development programs, and women's productive roles were largely ignored. Programs slowly integrated women into development concerns, but they were still viewed as secondary (Escobar 1995; Parpart 1995).

During the 1970s, researchers and policymakers effectively challenged the traditional development discourses of centralization and state-managed interventions (Escobar 1995). These challenges were fueled by the reported inefficiencies and failures of the top-down, or state-controlled, development initiatives. Although some challenges came from leftist-oriented groups, these attacks on government-provided development services were compatible with neoliberal policies that aimed to shrink the size of government and rely on a market-based production of all goods and services. Such privatization ideologies were consistent with the identification of the informal sector as an arena for low-cost and localized job creation (McMichael 2000).

The value of supporting self-employment as an economic development strategy was first publicized in a 1972 study by the International Labor Organization (ILO) in Nairobi, Kenya (Berger 1989; Raheim 1997). The study analyzed the problem of unemployment among low-income urban dwellers in southern countries. Findings indicated that although millions of urban dwellers did not have formal employment, many of them—especially women—were engaged in productive self-employment in the informal or unregulated, and often unrecorded, sector of the economy (Tinker 1989). Subsequently, this ILO discovery of the informal sector emphasized self-employment and women's role in it as a viable economic development strategy. After the ILO report, multilateral and bilateral assistance agencies devoted increasing attention to assisting women's enterprises in the informal economic sectors (Berger 1989; Portes and Sassen-Koob 1987; Portes 1997). Experts (e.g., Ashe 1985; Auwal and Singhal 1996) argued that giving credit to the self-employed poor would stimulate economic growth and ameliorate the unequal distribution of assets (i.e., wealth).

Over the past two decades, the promotion of self-employment has become the dominant model for assisting women in the southern hemisphere (Poster and Salime 2002). Again, consistent with the structural adjustment ideology, attention moved away from structural economic problems and toward the privatization of public services and the development of women as individuals. The discourse shifted from a focus on "development as charity" to a view of "development as business" (McMichael 2000, 295).

Microenterprise development is applauded as a southern hemisphere invention that was later copied or borrowed by programs in northern hemisphere countries (Coyle et al. 1994). However, such characterizations lose sight of the extent to which northern hemisphere–dominated governmental and nongovernmental organizations shaped the form and popularity of many of these programs. Organizations such as the Ford Foundation, United Nations Development Program, and, more recently, World Bank have been instrumental in defining the standards and funding parameters for southern MDPs (Prugl 1996; Alvarez 1999; McMichael 2000).

U.S. Agency for International Development Programs

In 1978, USAID sponsored the Program for Investment in the Small Capital Enterprise Sector (PISCES) in sixteen countries in Africa, Asia, and Latin American (Ashe 1985). PISCES analyzed the factors that shaped the success of microenterprises operated by the urban poor in these countries and also conducted demonstration projects to provide technical and financial assistance to microenterprises in four countries: Costa Rica, Dominican Republic, Egypt, and Kenya (Ashe 1985). PISCES concluded that, by allowing the poor to develop their own plans for business, microenterprise offers significant social welfare and economic development benefits. The final report recommended a more decentralized approach that funded local intermediary organizations to support and assist microenterprises.

USAID next created the Assistance to Resources Institutions for Enterprise Support Project (ARIES) in 1985. ARIES provided management and technical assistance to intermediary agencies to enhance their capacity to serve microenterprises. These intermediaries included government agencies, private voluntary organizations, banks, business associations, and cooperatives (Balkin 1989).

More recently, USAID has hosted conferences aimed at the global dissemination of information about microenterprise development. For example, in 1999 USAID hosted the Second Annual International Women's Business Conference in Chicago. The conference was part of the USAID's Lessons without Borders, a project aimed at promoting the international exchange between policy planners and community activists about successful development strategies. The keynote presentations emphasized that restricted access to credit was a significant problem for third-world women and microcredit was portrayed as the best modern development strategy for empowering women (Poster and Salime 2002, 198–201).

In addition to USAID, other United Nations agencies as well as the Inter-American Development Bank and other donor groups sponsored pioneering lending programs in Latin American, Indonesia, India, and Bangladesh (Berger 1989). These lending programs began making loans and other assistance to microenterprises in the mid-1970s. Although initially resistant to the microenterprise development concept (see Yunus 1997), the World Bank began to sign on to MDP projects by the mid-1990s (Buckley 2002). In 1995, the World Bank established the Consultative Group to Assist the Poorest (CGAP), an organization dedicated to expanding the funding and outreach for microfinance organizations. Consistent with the neoliberal orientation of the World Bank, this group's mandate was to fund programs to aid the poor who are or can become financially self-sufficient (Buckley 2002, 113–14).

In 1997, the first Microcredit Summit convened in Washington D.C. The Summit's Declaration and Plan of Action defines the group as an assembly whose purpose is "to launch a global movement to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services, by the year 2005" (MICRO Loan Fund n.d.).

A second Microcredit Summit was held in New York City in fall 2002; delegates from one hundred countries attended. The United Nations has declared 2005 to be the International Year of Microcredit. The resolution requests that the observance of the year be a special occasion for encouraging microcredit programs throughout the world. The Microcredit Summit Campaign is meeting with UN officials to help coordinate events for 2005 (MICRO Loan Fund n.d.).

The innovations associated with pioneering MDP programs have been integral to framing the need for microenterprise development today. Specific program practices vary, but these innovations are common enough across programs to merit review.

INNOVATIVE MICROENTERPRISE DEVELOPMENT PROGRAM METHODS

The historical economic context just described is important for understanding the process of microenterprise development. Modern MDPs developed innovative methods for extending credit to the poor. Some of these innovations were modifications of predecessor programs described above. Modern innovations attempt to remedy problems that plagued past economic development and microfinance programs.

1. Focus on women clients. In the past two decades, most MDPs in southern countries have targeted women, and anywhere from 50 to 100 percent of their clients are women. This trend has occurred for several reasons. Feminists have criticized past development practices for excluding women or ignoring their economic responsibilities. This neglect of women is especially problematic because of a worldwide trend toward the feminization of poverty—70 percent of the world's poor are women. Women are disadvantaged economically because of their limited access to education, formal jobs, and resources such as land and credit, and in many nations women are deprived of fundamental economic, political, and human rights (see Desai 2002). Moreover, most victims of poverty are children who reside in mother-headed households, a situation that is of an even greater concern because a growing percentage of households are female-headed. Microenterprise development is seen as a possible corrective to the situation.

Working women in southern nations are disproportionately located in self-employment activities in informal sectors (Creevey 1996). A number of studies suggest that women invest more of their income in their families—for food, school, and shelter—than do men (Amin, Becker, and

Bayes 1998; Auwal and Singhal 1992), and some studies report that women repay their loans more reliably than men (Pitt and Khandker 1998; Blumberg 1995, 2001). Programs such as the Grameen Bank even incorporate explicitly antipatriarchal and pro-development ideologies.

2. Peer lending model. The peer-lending model (also referred to as borrowers' circles or solidarity groups) is a method of microenterprise development that adapts elements of the ROSCA model. As with ROSCAs, group cooperation and support are integral to success. In peer lending, three to ten microentrepreneurs join together to receive a loan or related services such as business training, social services, and organization building. Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all members. Loans are determined by borrower need, loan size, purpose, and terms. The peer group serves as a mechanism for loan administration, social support, community building, information exchange, and pressure for loan repayment. It is credited with increasing the repayment rate of very poor individuals with little or no collateral and weak credit histories (Berenbach and Guzman 1994). Peer lending is also praised for building networks, that is social capital, among the poor (Woolcock 1998).

3. Step lending. Another program innovation is graduated or step lending. Individuals starting new businesses or those with poor credit and a lack of collateral may build up to larger loans by establishing a good repayment history on small loans. Savings requirements may be a component of the step-lending process. This innovation allows MDPs to minimize their losses on high-risk loans. It also allows entrepreneurs time to develop their businesses and establish a pattern of savings before assuming larger loans (Himes and Servon 1998).

4. Local relevance. MDPs try to be responsive to their local situation. This innovation is a direct response to large-scale economic development programs of the past that were designed by and often for some other population and simply transplanted to a locality without concern for the uniqueness of that setting (Tinker 1999; Prugl and Tinker 1997; Visvanthan et al. 1997). Many MDPs are locally based NGOs. NGO forms have been praised as a type of third-way alternative to private- and state-sector solutions to social and economic problems. They promise to be less bureaucratic than government, more socially conscious than for-profit firms, and more responsive to local community needs (Giddens 1998; Schreiner and Morduch 2002).

5. Collective Organization and Empowerment. Although the sheer provision of microfinance services and microenterprise development to the poor is viewed as a path to the economic and social empowerment of *individuals,* many MDPs in southern countries adopt far more comprehensive agendas. They include extensive educational, health-care, or community economic development projects such as water or irrigation systems (see Self-Employed Women's Association [SEWA] n.d.). Several programs are client-owned and controlled (e.g., FINCA), and some actively organize clients at the occupational or community levels (e.g., into unions or collective buying and marketing groups). Collective organizing is responsive to the demands for local relevance because programs that are locally controlled are more likely to be locally relevant.

6. The Village Bank Model. Village banks are another innovative method for delivering microfinance services and microenterprise development. Village banks are community-managed credit and savings associations (see Hatch and Hatch 1989; Holt 1994). The concept borrows from the credit union model described earlier, but village banks aim for a greater presence in microenterprise development and community investment strategies. The village bank model may include any or all of the program innovations previously described—peer lending, a focus on women clients, stepped lending, and community organization. The financial operation of village banks begins when sponsoring agencies lend seed capital to newly established village banks, which then lend to their members. All members sign the loan agreement as a collective guarantee. First loans are typically small and short-term. The bank charges a commercial rate of interest. At the end of sixteen weeks, the bank repays the sponsoring agency with interest. When members repay their first loan on time, they can get a second loan, the amount of which is determined by the savings a member has accumulated through weekly contributions during the first loan period. Members' savings stay in the village bank and are used to finance new loans or collective income-generating activities. No interest is paid on savings; instead, members receive a share of profits from the village bank's relending activities and other investments.

7. Bridge Lending. Recently, some MDPs have developed mechanisms to aid the transformation of larger microenterprises into small businesses through training and longer-term loans of $3,000 or more (Reed and Befus 1994). Bridge lending responds to microenterprises that are too large for most MDP loans but too small to meet minimum loan amounts or collateral requirements in traditional banks. The loans assist the enterprise in hiring employees, increasing production, or moving into markets with higher-technology requirements.

PROMINENT MICROENTERPRISE DEVELOPMENT PROGRAMS

The MDPs that have been the most influential in U.S. microenterprise development have tended to be the older and larger programs such as ACCION International and, most prominent of all, the Grameen Bank. ACCION International is an umbrella organization for affiliated microlending organizations and banks around the world. The Grameen Bank is a lending institution with numerous branches. It pioneered many elements of the village bank methodology. FINCA was established later than other programs, but has applied the village bank model around the world. Perhaps less well known in the United States, but nevertheless an important inspiration for many feminist-oriented U.S. MDPs, is SEWA. This program was developed by women and offered some of the earliest southern MDP services. It is distinguished by its direct organizing and comprehensive collective empowerment agenda. The next sections move from the most holistic to the more narrow models of southern MDP development.

Self-Employed Women's Association

SEWA (India) describes itself as an organization developed "by women for women" (SEWA n.d.). It has a comprehensive focus on women's social and economic development and collective empowerment. Although credit is an important SEWA goal, the organization's concerns extend well beyond business training or credit. The organization was founded by a charismatic leader, Ela Bhatt, a lawyer and labor organizer in India. Through its organizations, SEWA aims to empower the growing sector of contingent workers that characterize the new economy.

SEWA was established in 1972 as a trade union for women engaged in informal-sector enterprises. Most of these women were home-based and, as informal-sector workers, were not allowed to affiliate with established trade unions. Women in India were typically denied access to formal-sector employment and were highly exploited by the middlemen who subcontracted work to them or marketed their goods. Bhatt found some of these women living in the street without shelter. Their enterprises included work as street vendors, home textile workers, dairy farmers, and cart pullers. SEWA workers' cooperatives, or unions, help members negotiate with the middlemen, contractors, and merchants who use their services.

SEWA cooperatives represent many different occupational groups and boast over 2 million members (Desai 2002).

SEWA addresses members' credit needs through a village bank model. After serving as a financial intermediary between its members and lending institutions for several years, it established its own cooperative bank in 1974. The bank's membership is restricted to poor women, and it aims to help them become financially independent in their own enterprises. Self-employed women as shareholders own the bank, and their elected board makes the policies. The board hires professional managers to run the bank. As of 1999, SEWA Bank had approximately 93,000 active depositors, and over 33,000 loans outstanding. It has disbursed the equivalent of over $13 million in loans. The bank borrows and lends at market rates of interest (approximately 4 percent) and provides loans with a repayment period of three years. Loans under the equivalent of $55 require one guarantor; those above this amount require two. The maximum loan amount is the equivalent of approximately $700. Most loans are made directly to individuals, but SEWA uses the peer-lending model in rural areas. Loans are made for working capital, that is, for buying tools or for capital investments, such as a house, store, or work space. All borrowers are required to save. The bank reports that it is fully self-supporting and is not subsidized. It reports an average loan repayment rate of 95 percent.

SEWA Bank works closely with the SEWA trade union to provide additional services to members, include training in banking procedures, housing loans, and insurance. SEWA actively promotes collective empowerment through its labor cooperatives, which are involved in the provision of health care, child care, literacy, video technology, and community leadership training (SEWA n.d.). It is similar to the Working Women's Forum (WWF), an organization developed in Madras, India (Working Women's Forum [WWF] n.d.). Both SEWA and the WWF organize women informal-sector workers. Both have inspired some U.S. practitioners to design MDPs especially geared toward the needs of women.

Grameen Bank

The Grameen Bank is the prototype for the global MDP movement. It has been the subject of books, films, and television coverage and its founder has assumed an almost cultlike status as a leader of the field (Counts 1996; Brill 1999). The program has inspired numerous replications around the world including several U.S. programs. Like SEWA, the Grameen Bank was founded by a charismatic leader indigenous to the area that the program served. Also like SEWA, the Grameen Bank has a fairly holistic development agenda. However, this agenda does not entail union organizing.

Mohammed Yunus was a native of Bangladesh and professor of Economics at the University of Chittagong. His concern with rural poverty alleviation was heightened by the 1973–1974 Bangladeshi famine that killed several hundred thousand Bangladeshis (Auwal and Singhal 1992). The bank began as an experimental project in 1976 and turned into a formal nonprofit financial institution in 1983. Its purpose was to provide credit to poor, landless men and women. Yunus defined the poor as those who cultivated less than one-half acre of land or possessed assets worth less than the value of one acre of medium-quality cultivated land (Counts 1996, 46). Grameen loans were targeted to poor rural women because Yunus believed that women were more responsible savers and investors in family needs than were men (Auwal and Singhal 1992; Mizan 1993).

Yunus's targeting of women was especially significant because women's rights were so limited in Bangladesh: they faced Muslim rules of seclusion for women and were typically denied access to formal-sector wage labor (Creevey 1996). Yunus described their only borrowing options as loan sharks who charged exorbitant rates of interest. He argued that credit was a "fundamental human right" and that it could provide the poor with access to other human rights such as food, shelter, and health care (Counts 1996; Bornstein 1996).

The Grameen Bank operates by setting up a bank unit (or branch) with a field manager and several staff to cover fifteen to twenty-two villages. The manager and workers visit villages to recruit clientele and learn about the local milieu. Groups of prospective borrowers are formed, and, in this first stage, two members are eligible to borrow. The group is observed for a month to see if its members are conforming to bank rules. If after five weeks the two members have repaid their loans with interest, other members may borrow. The average loan size is $160 and the interest is approximately 20 percent. Five percent of each loan is paid into the Group Fund. Members must also make weekly payments of 1 taka (or approximately 3 cents) into the Group Fund. This fund belongs to the group, which determines how it will be used. In addition, members pay approximately 25 percent of their total interest payment into an Emergency Fund, which serves as life and accident insurance for members (Grameen Bank n.d.).

The groups meet weekly in the village with their bank assistant to discuss loan requests and any other matter of interest. Grameen staff provide comprehensive investment counseling and close supervision over borrowers' entrepreneurial activities to help improve their productivity and profitability. The peer-lending process aims to create a collective identity for the group. Each group elects officers and the branch elects a chief and deputy chief. The officers serve for one year and may not be reelected until others who are eligible have had the opportunity to serve in a leadership position. The Grameen Bank also requires that its borrowers generate savings in order to buy the bank's shares. This gives members ownership in the bank. Members elect representatives to serve on nine of the twelve available seats on the Grameen's board of directors (Auwal and Singhal 1992; Bornstein 1996).

Grameen leaders hope that the very existence of the organized borrowers' groups and centers will help members acquire the self-confidence, skills, and awareness to undertake other community actions (Wahid 1994; Bornstein 1996). Borrowers participate in decision making about the Grameen's practices during annual national workshops. For example, in one workshop, participants helped to formulate the Sixteen Decisions, a social contract that all members now recite at their meetings. The slogans include vows to eat nutritious food, educate children, and drink safe water; members also disavow domestic abuse and the practice of dowry (Solomon 1992). Through this contract, the bank seeks to undermine gender inequities and promote economic development. Accordingly, the Grameen Bank and this contract have stirred hostility among religious fundamentalist groups in Bangladesh, who resent what they regard as a Western influence (Goetz and Gupta 1996).

Because it became a formal bank, the Grameen Bank has made nearly 16 million loans, totaling over $3 billion. In 2002, the Grameen Bank had over 1,000 branches, had over 2 million members, employed 11,000 staff and worked in 41,000 villages of Bangladesh. There have been more than 170 Grameen Bank replications in more than forty countries (Grameen Bank n.d.).

The Grameen Bank reports a repayment rate of 98 percent, which is higher than the repayment rate of most traditional institutions in Bangladesh (Wahid 1994). The Grameen Bank attributes its high repayment record to its peer-lending model and to the use of the group's emergency fund to cover members' missed payments (Grameen Bank n.d.).

The Grameen Bank now operates as a for-profit institution. However, the bank is actually part of a family of institutions that includes other for-profit concerns and several nonprofit programs. With assistance from private donations, branch banks sponsor workshops for members to increase their knowledge of and commitment to improved health, contraceptive, and educational practices (Holcombe 1995). The bank family of programs also includes research and development projects that experiment with new technologies for increasing production, collective marketing of local products, and building infrastructure support for local businesses and communities (e.g., sanitation and water purification). These programs typically require additional funding from outside sources (Grameen Bank n.d.).

Foundation for International Community Assistance

FINCA is a nonprofit agency that began in Costa Rica in 1984. FINCA aims to alleviate poverty by developing banks in small communities that offer small loans and savings opportunities to low-income families. FINCA groups lend primarily to women.

Like women in Bangladesh and India, women in Costa Rica and other parts of Latin America are disproportionately relegated to work in the informal sectors. Although not facing the degree of religious-based restrictions encountered by Indian and Bangladeshi women, Latin American women still suffer from educational and economic disadvantages vis-à-vis men. Moreover, many Latin American men and women live in countries damaged by civil war, paramilitary rule, and an extreme polarization of wealth.

The FINCA organization pioneered the village bank method and is considered a leader in the microfinance field. FINCA coordinates a network of affiliates serving nineteen countries in Africa, Asia, and the Americas, including MDPs in the United States (Foundation for International Community Assistance [FINCA] n.d.).

The origins of FINCA are more directly linked to the United States than those of SEWA and the Grameen Bank. FINCA was founded by a U.S. economist, John Hatch, who had twenty years of experience in the international development field. Much of its funding comes from USAID (FINCA n.d.). Although its approach is less comprehensive than that of SEWA and the Grameen Bank, FINCA gives its participants the responsibility for running their bank and reinvesting its assets in their communities (Holt 1994). FINCA is also noted for encouraging savings, a microfinance service that is often underemphasized in other programs (Holt 1994). Its programs serve over 150,000 borrowers in over 8,000 groups.

FINCA Village Banks are support groups of ten to thirty-five members, mostly women, who meet weekly or biweekly to access small self-employment loans to start or expand their businesses. These groups provide structured savings programs and a community-based support system. FINCA borrowers receive loans so that they can buy rice in bulk at wholesale prices and resell it at retail prices; buy a used refrigerator to keep produce fresh; or purchase a sewing machine instead of stitching by hand. The aim of these loans is to make borrowers more productive so that they can increase their income and accumulate savings for other investments and emergencies. The groups guarantee one another's loans ranging from $50 to $500. Group loan guarantees substitute for traditional collateral. Like the Grameen Bank, meetings are participatory; members elect leaders, design bylaws, and manage funds and loans, including enforcing penalties for noncompliance. FINCA also provides technical assistance to groups. FINCA reports an overall loan repayment rate of 96 percent. Interest is approximately 3–4 percent per month. Sixty-five percent of FINCA's funding comes from the USAID, and the rest is from private foundations, corporations, and individual donors. The organization aims to help all FINCA country programs to become self-sufficient; some programs claim to be nearly self-sufficient, covering almost 91 percent of their in-country operating costs (FINCA n.d.).

Americans for Community Cooperation in Other Nations

ACCION International is a private, nonprofit organization that serves as an umbrella agency for a network of microfinance institutions in fifteen countries in Latin America, the Caribbean, Africa, and the United States. The organization was founded in 1961 in Caracas, Venezuela, by a group of U.S. students and volunteers. Their aim was to help poor communities to address pressing needs. At the outset, U.S.-based multinational corporations funded ACCION projects to improve the neighborhoods near their corporate offices. Later, ACCION leaders decided that the best mechanism for fostering political and economic development in Latin America was through assistance to informal sector workers. In 1973, ACCION shifted its attention to individual businesses and began to provide credit and training to the self-employed poor. It developed a peer-lending approach called solidarity lending (Servon 1999a; Himes and Servon 1998; ACCION International 2003). ACCION is the most narrowly focused of the four programs discussed here; it concentrates on lending to microentrepreneurs, and only minimal training and technical assistance accompany its loans.

ACCION targets borrowers who are self-employed and who rely on microenterprise as their main income source. ACCION reports that its clients are among the nation's poor at the time of their first loan, usually have no collateral, may not be able to read or write, and may not have enough collateral to open for business every day. They include market vendors, sandalmakers, and seamstresses. Women are 65 percent of ACCION's southern hemisphere clients (Himes and Servon 1998; ACCION International 2003).

The ACCION network provides small short-term loans at interest rates that reflect the cost of lending. Borrowers may apply for loans individually, but, if they lack physical collateral or a cosigner, they join with other borrowers to form solidarity groups (i.e., borrowers' circles). The first loans are small, as low as $100. Borrowers who repay on time are eligible for increasingly larger step loans. As of 2002, ACCION's average loan ranged from approximately $300 to $500 in Latin America and Africa, to almost $6,000 in the United States. It serves approximately 2.7 million clients and has disbursed the equivalent of $4.6 billion dollars with a reported repayment rate of 97 percent (ACCION International 2003).

ACCION prioritizes program self-sufficiency, and this goal, at least in part, explains its more narrowly focused strategies. Programs control operation costs by keeping training costs low. Required training is minimal, including only ten hours of classes that are structured through training notebooks and focused on lending groups and the lending process. A second, optional tier of training responds to requests from group members and includes management techniques appropriate to microenterprises (e.g., marketing and increasing profits). Technical assistance in the form of one-on-one counseling follows training sessions (Berenbach and Guzman 1994). ACCION's self-sufficiency goals necessitate that fees be attached to all program services. The organization argues that these prices provide a good indirect measure of training success by indicating the value of ACCION training to clients (ACCION International 2003).

Although funding comes from both public and private sources (e.g., grants from Citicorp Foundation, Ford Foundation, and the U.S. Department of Treasury), ACCION leaders doubt that there will ever be enough charitable monies for MDPs to have a significant impact on poverty. Thus, ACCION has designed its program in a manner consistent with new privatization trends; it attempts to model itself as a business. ACCION aims to become self-supporting and eventually to become commercial by increasing its loan volume, borrower interest, and associated loan and technical assistance fees. ACCION leaders believe efficiently managed MDPs can generate more income than they spend. Once commercially viable, these programs can become financial institutions and can access the international capital markets by issuing their own debt instruments, most typically as certificates of deposit or as bonds. ACCION publishes reports on best practices in an effort to help microlenders worldwide move toward financial sustainability (ACCION International 2003).

Some ACCION affiliates have reached commercial viability, been incorporated into their country's financial system as regulated institutions, and offer savings and other financial services to microenterprise clients

(Christen and Drake 2002). ACCION played a key role in the creation of commercial microfinance institutions such as BancoSol in Bolivia, Mibanco in Peru, and Finamerica in Columbia (ACCION International 2003; Rhyne 2001). BancoSol was the world's first commercial bank dedicated to microenterprise lending (Gonzales-Vega et al. 1997). ACCION has inspired the design of several U.S. MDPs and, beginning in 1991, formed affiliates in more than thirty U.S. cities.

European Programs

Although the inspiration for microenterprise development is typically associated with the poverty and economic crises of southern hemisphere nations, some European programs have also served to inform the microenterprise field. However, in contrast to southern nation MDPs, these programs have focused more narrowly on assistance to the unemployed. In 1980, the Chomeurs Createurs (Unemployed Entrepreneurs) enabled French citizens entitled to unemployment compensation to collect benefits in a lump sum to finance creating a small business (Balkin 1989). If the business failed, the individual could receive benefits again, but was required to repay the loss through higher unemployment insurance once he or she secured another job. In 1983, Britain introduced the Enterprise Allowance Scheme (EAS), a program wherein unemployed people were eligible for technical assistance to start their own businesses. Recipients received allowances, roughly equivalent to unemployment benefit amounts, that extended for up to one year (Balkin 1989).

SOUTHERN MDP SUCCESSES

The positive evaluations of pioneering MDPs encouraged the spread of these program innovations to other southern regions and to northern hemisphere countries (Gibbs 1990; Katz 1991; Schuman 1993). Evaluations reported significant successes in the areas of (1) poverty alleviation through self-subsistence, (2) economic development, (3) individual empowerment, and (4) collective empowerment through community organization. Many programs also reported successes in achieving or moving toward program sustainability.

In terms of poverty alleviation and economic development, many researchers associate MDPs with increased participant incomes and increased numbers of jobs in regions where programs operate. For example, one study of the Grameen Bank compared wage levels in villages served by the bank with a control group of villages that lacked a Grameen center. The researchers found a significantly higher wage level in the bank villages and concluded that economic activity fueled by Grameen credit had tightened the labor market and increased labor income (Khandker, Khalily, and Khan 1995). An interview study with 380 FINCA Village Bank borrowers in El Salvador revealed that their weekly incomes increased an average of 145 percent (Hahn and Ganuzza n.d.). Participant savings also increased significantly over time. One ACCION study found that family income increased at an average rate of 30 percent after a series of small loans (Himes and Servon 1998). Proponents rely on such research to associate microlending activities with job creation and client improvements in agricultural productivity, housing quality, income, and nutrition (Microcredit Summit 1997).

Some researchers emphasize the role of MDPs in empowering clients as individuals. Participation in peer-lending groups is associated with increases in confidence and self-esteem. Microenterprise development also may *indirectly* promote empowerment through inclusion in the economic system, improved health, education, greater input into household decision making, and less dependency on wealthy landlords or loan sharks (Naidoo 1994; Auwal and Singhal 1992; Rahman 1994; Rahman and Wahid 1992). The Grameen Bank's pro-development stance and its requirement that members must accept the Sixteen Decisions are cited as an important source of empowerment for women (e.g., vows to educate children and to disavow domestic abuse and the practice of dowry) (Auwal and Singhal 1992).

MDPs claim significant success in the realm of collective empowerment (i.e., community organizing) (Desai 2002). Union-focused organizations such as SEWA report a direct impact on women's income and working conditions through collective bargaining (Bhatt 1995; Rose 1996). Involvement in village banking or borrowers' circles is also associated with increasing women's awareness, participation in community organization, and community action (Naidoo 1994; Creevey 1996).

Some MDPs emphasize their potential to be self-sufficient programs. SEWA, ACCION, and the Grameen Bank cite low default rates and significant participant savings accumulation as important steps in their move toward institutional self-sufficiency. Others argue that microfinance is becoming more commercialized in the southern hemisphere, most notably in Latin American countries (Christen and Drake 2002). This trend is exemplified by NGOs that are transforming into licensed banks in order to access public funds or small savings deposits. In addition, banks and finance companies are exploring methods for offering microlending and savings services to the poor (Christen and Drake 2002). Consistent with a neoliberal emphasis on market-based solutions to social problems, a number of proponents argue that commercialization is an essential and viable step for MDP institutionalization and growth.

CRITICISMS OF MICROENTERPRISE DEVELOPMENT PROGRAMS

Evaluations—Methodological Concerns

Although positive evaluations support MDP success claims and funding requests, such reports are not without critics. The debates about MDP evaluations also provide insights into the dilemmas surrounding diffusion and further development in the MDP organizational field.

Many evaluations rely only on indirect measures of program success (i.e., proxies) to avoid costly client follow-ups. Proxies include the number of clients served, number of loans made, and rates of loan repayment as success indicators. More direct measures of success would include increases in client incomes, number of clients' business employees, and value of business assets after program involvement (Berger 1989). The duration of client follow-ups and the representativeness of follow-up samples are also important issues. A brief follow-up cannot assess the longevity of client businesses or long-term improvements in client incomes. On the other hand, longer follow-ups heighten the risk of sample bias as clients drop out or lose touch with programs over time. Such sample mortality is problematic because the least successful clients are those most likely to lose touch with the program.

Even studies that include direct measures and long-term follow-ups often fail to incorporate an adequate comparison group of non-MDP clients (Gulli 1998). Without good comparison groups, it is uncertain whether observed improvements are the result of MDP participation. Observed client outcomes might be the result of other unmeasured factors such as a general improvement in the economy or client resources that are unrelated to MDPs. Studies that examine the regional impact of MDPs are especially vulnerable to this type of error (Schreiner 1999b).

Research that addresses these methodological concerns is needed to inform future funding and diffusion of MDPs (Morduch 1999, 2000). However, strong evaluation designs are difficult to achieve. The introduction of proper comparison groups (who would be eligible for but do not receive services) can raise ethical concerns. Sound evaluations can be expensive and divert funds from important program services. Moreover, funders seem more interested in analyzing programs' potential for self-sufficiency than in rigorous assessments of impacts on poverty alleviation (Morduch 2000; Buckley 2002).

Other Issues

In addition to these methodological concerns, experts challenge the international MDP movement on other grounds. Some argue that MDPs legitimate structural adjustment policies that increase unemployment and restrict state responsibilities for social investment in the poor (S. Johnson 1998; Desai 2002). They challenge claims that individuals can lift themselves out of poverty with hard work and a little MDP credit or training (Rogaly 1996). Critics question the capability of most microenterprises to provide a livable income for families; the businesses are typically in sectors that are vulnerable to large-scale corporate competitors and cheap import policies (e.g., food production) (Grosh and Somolekae 1996). Some research suggests that MDP loans are used to meet daily consumption rather than commercial needs (Goetz and Gupta 1996; Singh and Wysham 1997). Many argue that in the absence of structural economic changes to promote a positive regulatory and economic environment for microenterprises, MDPs may simply increase indebtedness among the poor (Berger 1989; Adams and Von Pische 1992; Carr 1995). "It is only a short leap in argument from reports of a very large number of women borrowers and high repayment rates to promotion of financial services as an answer to poverty and the needs of the very poorest. . . . [Q]uite clearly, financial services are not always the most appropriate intervention. There may be much more urgent requirements, such as health and education services" (Rogaly 1996, 105).

Critics argue that despite expressed aims, MDPs fail to reach a sufficient number of poor people (Hulme and Mosley 1996; Morduch 1999, 2000); many MDPs have a high percentage of nonpoor clients (Gulli 1998, ix). Even the Grameen Bank, which has one of the best records for serving those in poverty, reports that it is unable to reach the poorest 10 percent of its population (Coyle et al. 1994). Some scholars also question whether the better-off of the poor really need MDPs to succeed (Morduch 2000).

Analysts argue that even when MDPs reach poor clients, programs are usually too small to attain the same scale as banks and credit unions that may serve smaller percentages but serve larger absolute numbers of the poor (Gulli 1998; Buckley 2002). Although it might increase the number of clients served, commercialization might also reduce outreach to the poor or certainly minimize the support services that can be offered at a profit (hence the use of the term *commercial microfinance* instead of *microenterprise development*) (Hulme and Mosley 1996; Morduch 1999). Along such lines, some experts argue that MDPs should aim for sustainability rather than self-sufficiency. Sustainability means that programs are cost-effective in that (1) their operating costs are clearly outweighed by their program impact and (2) their programs can be sustained by smaller amounts of outside funds (Otero and Rhyne 1994; Hulme and Mosley 1996; Gulli 1998).

Even if the majority of MDPs remain nonprofit or government providers, the new privatization ideology of businesslike cost effectiveness is likely to pervade the entire MDP organizational field. Commercialization proponents acknowledge that the movement of a few private firms into the MDP industry will shape the conduct of all—profit, governmental, and nonprofit alike. The line between commercial and nonprofit organizations is further blurred by observations that the largest investors in commercial microfinance concerns are public development agencies and nonprofits (Christen and Drake 2002). Many nonprofits, in turn, are funded by grants from private firms and government (Smith and Lipsky 1993). The hegemony of market standards combined with complex interweaving of links among government, nonprofit and for-profit organizations heighten the ambiguity of responsibilities and accountability for social services (Jurik 2004).

Increasingly, many practitioners and scholars argue that there is a fundamental contradiction between program outreach and sustainability goals (Hulme and Mosley 1996; Morduch 1999, 2000; Vinelli 2002). Intensive social and economic support are important for reaching poor clients, but these services greatly increase program operating costs. Increased costs, in turn, undermine MDP sustainability and self-sufficiency. Sustainability desires may converge with demands for successful program outcomes to pressure staff to screen out higher-risk borrowers. Such "creaming" processes may exclude those who are the most lauded targets for MDP services—women and the poor (Blumberg 1995; Kidder 1998).

Although the MDP focus on women has been highly praised for empowering women economically and socially, critics argue that emphasizing women clients to the exclusion of men can heighten women's burden as providers for the family and discourage men's responsibility. Moreover, directing attention to individual women as entrepreneurs distracts from the structural sources of gender inequality (Poster and Salime 2002).

Some case studies challenge claims that localized programs *automatically* lead to collective empowerment. Funding controls and performance standards set by multinational development organizations often thwart local organizing and other collective empowerment agendas by women.

Local community organizing activities can be inhibited by the demands of international and regional funding sources, and the programs favored by many large funding sources adopt a narrow, more technical and business-oriented approach to microenterprise development (Lang 1997; Poster and Salime 2002).

Centralized controls and bureaucratic regulations may limit program responsiveness to the concrete needs of clients. The resulting rules for program operations can be irrelevant or dysfunctional for clients in some localities (Prugl 1996; Alvarez 1999; McMichael 2000.) For example, some women found that rules for gender-segregated groups heightened men's animosity toward them (Poster and Salime 2002). Another study found that women Grameen Bank participants did not control the loans they received; their husbands or kinsmen took charge of the money and sometimes become violent when their wives or kin were denied loans or refused to hand over the money (Goetz and Gupta 1996).

Some researchers report that peer groups for lenders can be extremely oppressive for borrowers who are unable to repay their loans when they are watched and shunned in the community. In the face of this increased community surveillance and sanction, some borrowers return to village loan sharks in order to make microloan payments (Fernando 1997).

Although there are numerous criticisms, MDPs continue to offer hope of individual and community empowerment in the southern hemisphere. Studies continue to document many examples of the empowerment effects of peer lending and economic assistance for women and men in MDPs. In many programs and communities, individuals struggle to realize the progressive potential of MDPs. Despite many barriers to localized controls, northern development organizations do not completely dominate southern MDP operations. Some international funding agencies are supportive of women's organizing and collective empowerment agendas (Alvarez 1999; Johnson 1999). In addition, some southern hemisphere programs have successfully negotiated the bureaucratic maze of funder demands to locate funders more compatible with their goals. On occasion, they successfully appropriate and transform MDP models to fit their localized needs (see Alvarez 2000; Thayer 2001; Poster and Salime 2002).

CONCLUSION

The history of southern hemisphere MDPs reveals innovations, accomplishments, and dilemmas. Although U.S. programs are portrayed as an outgrowth of successful southern hemisphere MDPs, the relationship was not that simple. Modern MDPs are embedded in a complex context of economic crises and change and of accompanying neoliberal ideologies and policies. Although some MDPs were developed by indigenous leaders of the countries in which they were begun, northern ideologies and organizations significantly influence the form and scope of southern MDPs.

Programs also vary considerably; some have developed holistic and activist agendas (e.g., SEWA), whereas others (e.g., ACCION) have focused more narrowly on self-employment lending. Efforts to move toward commercialization, favored by USAID, the World Bank, and others, are most consistent with neoliberal market-centered ideologies. Although these trends may greatly expand service outputs, they threaten to narrow the services available to the poor, and most certainly to limit program scope so that it excludes collective empowerment-oriented agendas.

Some proponents argue that MDPs actually offer a more humane third way residing between free-market ideologies and the traditional liberal reliance on government (Giddens 1998; Schreiner and Morduch 2002). This third way calls for a greater participation from civic society, including NGOs, as well as localized nonprofit organizations in the provision of human services. Regardless of the preference for neoliberal or third-way ideology, both encourage the privatization of public services and the evaluation of even publicly and NGO-provided services in terms of their consistency with businesslike operations standards.

The context of the new economy provided tremendous opportunities for MDP growth and popularization, but these opportunities also posed dilemmas. Contradictions arose for southern MDPs in the following areas: alleviating versus legitimating neoliberal policies, program outreach versus program sustainability, empowering versus overburdening clients as individuals, encouraging collective empowerment versus increasing community surveillance, and facilitating local control in the face of growing national and international standards. Despite these tensions, reports of southern program successes provided an important niche or point of reference for the diffusion of MDPs into the United States during the 1980s and 1990s.