Developing a Macro- and Micro-Metrics Package
For Microfinance Institutions

by

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ABSTRACT

This paper attempted to extract from the literature a package of measures, or metrics, that can be used by microcredit programs and institutions to gauge their success as financial institutions, as well as their broader societal impact as welfare organizations.

What was learned is that microcredit organizations, unlike more traditional financial institutions, are largely unregulated and therefore tend to use a variety of non-standardized measures to assess their success and sustainability. Moreover, it is clear that microfinance institutions cannot easily trade-off those measures that track institutional success, for those that measure the well-being of the community as a result of borrowing money and mounting a micro-enterprise, since a number of confounding factors make direct correlation difficult.

By employing the Balanced Scorecard framework, microcredit organizations can collect regularly data that reports on the financial status of the organization, its internal business practices, the rate of borrower success, and lessons learned. Moreover, the microcredit organization that assumes to impact the borrower community at large, can use the same framework to aggregate these data across borrower communities and monitor them along with certain health and welfare data to infer a degree of behavioral impact.

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I would like to use this thesis to acknowledge the entrepreneurs not featured in business school; the entrepreneurs who against all odds, manage and assume responsibility for a business or other enterprise; the poor entrepreneurs who constitute a sub-set of the world's three billion poor people; poor people with dreams of self-sufficiency and prosperity.

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Finally, to my father, Nate, I dedicate to you all of the time and passion that went into this work. I know you would be delighted to know that your youngest graduated from MIT, and even more thrilled to learn that I had free parking in Cambridge for an entire year.
Introduction

Mary Akoth lives in Ahero Town, a destitute town located in one of the poorest parts of rural western Kenya. At 38, she is responsible for her five children, who range in age from 5 to 22 years, as well as her one grandchild. In 1979, Mary's husband left her and her family refused to help her. Left with no resources, Mary became refugee in her own country. She and her children were forced to move to Ahero Town, where she had to fend for herself, earning whatever money she could by whatever means possible to pay the rent and buy food.

Her life was a constant struggle.

In 1992, Mary, who was a member of the Nyando Women's Group, attended a training session on microcredit. A year later she received a loan of Ksh 200 (US$ 4) from AFRICA NOW. With this small loan she had enough to start her microbusiness of selling chapatis and tea on the roadside. Soon she was making a daily profit of Ksh 40. After six months she added rice and beans to her product line and increased her client base considerably. Eventually, she was able to request a plot of land from the local county council on which she constructed a temporary kiosk. With her business growing, Mary hired a young man to help her out, and by 1995 Mary was able to hire two more people.

Today, Mary makes a profit of US$ 8 per day (twice the size of her original loan). She uses the money to pay rent, provide good food for her family, and pay school fees for her two school-age children. She employs three people and plans to expand her business further. She says she is no longer embarrassed and does not feel isolated and helpless as she did before. She says she now looks forward to a future for herself and her children that she never dreamt possible. She says she has regained her dignity.

Perhaps it was Mary who the United Nations Secretary General had in mind when, in his 1997 Report, he described microcredit as "the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans." He further insisted that "microcredit has proven an effective and popular measure in the ongoing struggle against poverty, enabling those without access to lending institutions to borrow at bank rates, and start small businesses." The microcredit literature is replete with testimonials echoing that of Mary's. At the same time, the literature contains considerable concern about the function of the microcredit institutions; the creditworthiness of microentrepreneurs, and the interest rates charged; and the relationship between microcredit and poverty eradication.

This paper attempts to extract from the literature a package of measures, or metrics, that can be used by microcredit programs and institutions to gauge their success as financial institutions, as well as their broader societal impact as welfare organizations.

Specifically, the metrics package is selected by:

1. exploring the past and present functions of microcredit institutions, and their stated or potential impact on poverty eradication, health status and empowerment;
2. reviewing the operation and measures of success of microfinance institutions, including their similarities and differences from commercial lending banks;
3. presenting current thought on the institutional sustainability and economic impact of microcredit institutions and programs; and
4. applying a proposed package of micro- and macro-metrics to a functioning microfinance organization to test its appropriateness.

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Part I: Exploring the Past and Present Functions of Microcredit Institutions

"Despite all our technological breakthroughs, we still live in a world where a fifth of the developing world's population goes hungry every night, a quarter lack access to even a basic necessity like safe drinking water, and a third lives in a state of abject despair -- at such a margin of human existence that words simply fail to describe it."
- UNDP Human Development Report, 1994

The global economy today can be viewed as one striking dichotomy: those with the ability to produce and consume, and those with no promise of either. Those who produce and consume at the highest level, tend to be the affluent residents of both developed and developing countries, where they enjoy the comforts and lifestyles afforded those with the financial resources to both produce and consume. Those without the requisite resources to produce or consume, are confined to an existence characterized by severe deprivation, malnutrition, vulnerability to infectious disease, inadequate levels of education, insufficient shelter, and a lack of access to resources that would allow them to work their way out of poverty.

Nearly 80 percent of the world's population (90 percent in the developing world) do not have access to credit and savings institutions. Commercial banks ignore the poor because of the high costs associated with lending small amounts to borrowers whose creditworthiness is difficult to gauge. As a result, the poor have traditionally been forced to rely on family members, friends, or money-lenders for short-term loans. Unfortunately, these options are more likely to entrench rather than relieve poverty. Certain alternatives exist, such as rotating credit associations, but they do not sufficiently diversify risk and prove inadequate for larger-scale projects.

This is precisely where microcredit has met an important need.

This chapter provides an overview of the microcredit movement, including a review of its origins, evolution and objectives. Also included in this section is a discussion of the link between microcredit and poverty, poverty and poor health, and microcredit and empowerment. The chapter concludes with a consolidation of the micro- and macro-measures covered in this portion of the paper to assess the potential impact of microcredit.

A. What is Microcredit?

Microcredit, also referred to as microfinance or micro-loaning, is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. Normally the loans are of only a few hundred dollars at most, with a repayment period of about a year or so on average. Women are the major recipients of these loans, and the destination of the funds primarily includes agriculture, small animal husbandry, the production and trading of goods and crafts, and small processing industries. The administrative structure is necessarily light to not absorb the minimal income generated through interest on such small loans (UN Report 1997).

Microcredit is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged if they had access to small-scale loans that would permit them to enter into the small-enterprise sector. The premise is that integrating the poor into the business sector would result in a higher degree of self-reliance, the creation of employment opportunities, and, not least, the engagement of women in economically productive activities.

Furthermore, it has been demonstrated that microcredit provides the rural population with access to savings within the local area and with a certain cushion against economic fluctuations.

A distinction of the microcredit industry is the formation of Loan Groups. Most institutions organize their borrowers into groups, which decreases the risk of default and provides effective mechanisms through which to disseminate valuable information on ways to improve health, legal rights, sanitation and other relevant concerns of the poor.

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Various institutions are involved in the delivery of microfinance services. They include: formal commercial banks, rural banks, cooperative institutions, credit unions and non-governmental organizations. In addition, large international institutions, such as the World Bank, the United States Agency for International Development, the United Nations, the International Labor Organization, and the International Fund for Agricultural Development provide financial and technical support to microfinance organizations. Their methods of doing business range from solidarity groups (like the Grameen Bank) and institutions dealing with individual clients (credit unions) to self-managed self-help groups (Banco Solidario). Some institutions have gone beyond credit to offer insurance and other financial and social services (UN Report 1997:6-7).

B. What are the Origins of Microcredit?

Microcredit has its origins in the Rural Development institutions of the early 1960s and 70s. Although these met with failure, they laid the foundation for the surge of microcredit institutions and programs that was to follow. Below is a description of the Rural Development Institutions. It is followed by an overview of three premiere microlending organizations: the Grameen Bank, featuring its group loan format; ACCION International, focusing on its ability to access microlending institutions in Latin America to capital markets; and the Baden Kredit Kecamatan (BKK), showcasing its efforts to provide village banking to the rural poor of Indonesia.

1. The Rural Development Institutions

During the 1960s and 1970s, development agencies and third world governments funneled large sums of money to numerous state-run Rural Development Institutions (RDIs) that provided agricultural credits to poor farmers. As a general rule, the RDIs offered credit at highly subsidized terms to farmers, targeted credit for specific uses, and did not offer savings services.

From the beginning these RDIs were plagued by a number of problems, including a "hand-out" mentality among clients, high overhead and transaction costs, and heavy corruption. Impact was almost non-existent: the production achieved among the farmers was negligible. Worse yet, RDIs suffered from abysmal repayment rates. This lead to a discontinuation of donor funding, and the inevitable failure of the RDIs, which gave rise to even lower repayment rates, since borrowers had little incentive to repay loans to institutions whose futures were in doubt.

2. Microcredit Institutions

a. The Grameen Bank

For the first 40 years of her life, Nurjahan had never seen a telephone. Then, overnight, Nurjahan literally became the telephone system in her village. With the acquisition of a single cellular telephone, supplied by Grameen Telecom, she connected 8,000 peasant farmers with the outside world, effectively transforming a centuries old lifestyle. Thanks to the opportunity micro-entrepreneurs have to receive credit to purchase these cell-phones, each phone operator in Bangladesh stands to net an average of $2 per day. This translates into about $700 per year, more than double the national average annual income.

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The origin of Grameen Bank can be traced back to 1976 when Professor Muhammad Yunus, then Head of Rural Economics Program at the University of Chittagong, launched a field-based research project to examine the possibility of designing a credit delivery system to provide banking services to the rural and landless poor. The Grameen Bank Project (Grameen means "rural" or "village" in Bangla language) came into operation with the following objectives:

1. extend banking facilities to poor men and women;
2. eliminate the exploitation of the poor by money lenders;
3. create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh;
4. bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format which they can understand and manage by themselves; and
5. reverse the age-old vicious circle of "low income, low saving, low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

The research project, which was carried out between 1976-1979, illustrated the potential for extending microcredit to the landless poor in Jobra (a village adjacent to Chittagong University) and in some of the neighboring villages. With the sponsorship of Bangladesh's central bank and the support of the nationalized commercial banks, the project was extended to Tangail district (a district north of Dhaka, the capital city of Bangladesh) in 1979. Following the success of the project in Tangail, it was extended to several other districts in the country. In October 1983, the Grameen Bank Project was elevated to the status of an independent specialized financial institution.

The Grameen Bank maintains that the lack of access to credit is the biggest constraint for the rural poor. Consequently, the mission of the Grameen Bank is to channel credit directly to the poorest and the least empowered, in hopes of improving their living standards and hence those of their families. The Bank founder, Professor Muhammad Yunus reasoned that if financial resources could be made available to poor people on terms and conditions that are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder." To better meet its ultimate goal of social and economic development, Grameen Bank targets women more than men. Bank staff noticed that women experience poverty more acutely than men, they behave differently because of it. As Bornstien noted in his biography of Yunus, as the number of female borrowers increased, the staff observed that money, which entered the household through the mother, seemed to have a more profound impact on the family as a whole. When a woman brings in income, the immediate beneficiaries are the children. A mother is interested in buying better food or cooking utensils, or patching the roof. She pays more attention to the children's clothing and to their bedding.

Along with providing credit, Grameen Bank offers guidelines to members for codes of conduct and activities aimed at improving their social and financial conditions. It also provides training to women in maternal health, nutrition, and childcare to generate greater demand for basic health-care services.

The Grameen Bank has revolutionized conventional banking practices by removing the need for collateral and by creating a banking system based on mutual trust, accountability, participation and creativity. Contrary to the practice of formal finance, the Grameen Bank lends (in small amounts) to the poor based on group responsibility, where individual access to credit depends on group repayment behavior. Group lending uses peer pressure, or social collateral, to monitor and enforce contracts and helps screen good borrowers from bad ones. As an insurance measure, the Grameen Bank fosters savings schemes that provide protection against default, an internal source of finance, and a stake for the members in Bank operations. Each member is required to save 1Taka each week and to buy a Grameen Bank share worth 100 Takas. In addition, each borrower contributes 5% of the loan amount to a group fund and 5 Takas for every 1,000 Takas (above loan size greater than Taka 1,003) to an emergency fund (http://www.grameen-info.com/bank/hist.html).

Today the rural poor whom it serves are the majority owners of the Grameen Bank: the borrowers of the Bank own 92% of the shares, while the remaining 8% is owned by the government.

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6 http://www.grameen-info.org/bank/hist.html
Throughout the developed and developing world, the Grameen Bank is considered the forefather of microcredit banking. It is perhaps the most documented and replicated banking institution of our time. The Grameen Bank has inspired people and institutions throughout the world with its success in poverty alleviation. Thousands of people from some 100 countries have gone through Grameen’s training and exposure programs since its inception. Some of those visitors have returned to their countries and replicated the Grameen Bank financial system to help the poor people in their own country to overcome poverty. In total there have been more than 200 Grameen replication programs in 58 countries during the last decade. Taken together, they have reached several hundred thousand poor borrowers with credit around the world.

b. ACCION International

Elvira Mamani spent her childhood at her mother’s side, observing and absorbing the family craft of fine embroidery. Now Doña Elvira uses that craft to support her own three daughters. Her husband works as a construction worker, an uncertain job which sometimes leaves him without income for long periods of time. Elvira is the family’s main breadwinner.

Elvira works out of a little shop located within her own house in the northern zone of La Paz. In this tiny space she creates and sells her embroideries and clothing. Though she worked tirelessly, embroidering all day every day, Elvira found that it was hard to get ahead in her business without any capital. She realized that if she had a little money, she could buy more materials at a lower cost and thus earn more. Luckily, she heard about BancoSol, where small entrepreneurs like herself were taken seriously. Although she had no collateral, BancoSol recognized that Elvira had talent and an enterprising spirit. They bet on these intangibles and made Elvira a loan of $300 for a four-month term. The investment paid off, and Elvira repaid the entire loan with interest, on time.

Now that Elvira has seen how one loan increased her revenue, she plans to request $600 to invest in a modern sewing machine. That way she’ll be able to produce more, faster.

"BancoSol not only helps me grow my business, it also gives me hope that better days are coming," says Elvira. Elvira hopes to keep growing her business so that she can hand it down to the next generation. Her youngest daughter, Sandrita, looks like a promising candidate. Sandrita has already taken an interest in the family craft, and spends every afternoon after school in the shop, learning from her mother.

ACCION International is a private, non-profit organization established in 1960 to combat poverty throughout the Americas by providing loans and other financial services to poor and low-income people who start their own micro-enterprises. Today, ACCION is an umbrella organization for a network of microfinance institutions in 14 Latin American countries and 10 U.S. cities.

ACCION became an early standout among nascent microenterprise programs in the 1970s by recognizing that, in order to work effectively, micro-credit loans could not be structured aid. "We priced our product according to cost...and discovered that micro-lending can be done on a commercially viable basis," [says Maria Otero, ACCION executive vice president].

The microloans that Michael Chu, current CEO of ACCION, calls the "first grains of sand" now represent a collection of increasingly sophisticated financial arrangements that could have remarkable social impact. ACCION has had a role in some of the most revolutionary such arrangements, and is likely to begin the next wave through such vehicles as its International Gateway Fund, designed for institutional investors to invest in ACCION's network.

"Most of the world is poor and the only way to seriously combat this problem is on an economically viable basis," says Chu. "Microlending is an economic firepower of sufficient magnitude in relation to the problem."

It works like this: ACCION borrowers pay interest on their loans - enough to cover the expense of making a loan. In this way, each borrower helps finance the cost of lending to the next. The more people the program reaches, the

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more resources it has to reach even more people. This focus on financial sustainability has helped ACCION's network increase the number of people it serves from 13,051 in 1988 to 380,000 in 1998.

What distinguishes ACCION International from some of the other microfinance organizations is its recognition that the international capital markets are the only source of sufficient funds to make a real impact on world poverty. Although increasingly more microlenders are accessing commercial funds in the form of bank loans to then on-lend to their clients, far fewer have been able to tap into the capital markets through the issuance of their own debt instruments, most typically as Certificates of Deposit or as bonds.

This is because to tap into the capital markets, microlending institutions must become commercially viable, covering both operating and financial costs with interest income and fees. Perhaps 50 of the estimated 7,000 to 10,000 microlenders worldwide have achieved this. ACCION International plays a leading role in helping microlenders develop the capacity to access these capital markets. ACCION is now working to design and implement financial instruments that can be issued into the capital markets, including the securitization of microlending portfolios. Some ACCION affiliates have not only reached commercial viability but have subsequently been incorporated into their country's financial system as regulated institutions. This allows them to also offer savings and other financial services to their microenterprise clients. Examples include BancoSol in Bolivia; FINAMERICA and Cooperativa Emprender in Colombia; Mibanco in Peru; Banco Solidario in Ecuador, and MultiCredito Bank in Panama.

Moreover, ACCION has long been active in helping its network affiliates access commercial capital, thereby vastly increasing the number of people they can reach (http://www.accion.org/about/main.asp).

- In 1984, ACCION created a guarantee fund, the Latin America Bridge Fund, to meet its affiliates' growing demand for capital to fund their microloan portfolios. The first of its kind, the Bridge Fund is capitalized by donations and private deposits. The Fund issues letters of credit that allow ACCION affiliates to borrow directly from local banks, dramatically increasing their pool of capital for microloans, and effectively linking microenterprise with the formal banking sector. The Latin America Bridge Fund is currently capitalized at over $6 million and pays a range of rates to its investors.

- In 1992, ACCION helped launch BancoSol in La Paz, Bolivia, the world's first commercial bank serving the businesses of the poor. Since 1994, with the help of ACCION, BancoSol has issued more than $200 million in Certificates of Deposit, $3.8 million of which have been sold internationally. Over the last two years, BancoSol has issued $5 million in bonds backed by its lending portfolio, $2 million of which were placed outside the country. With 81,500 clients, BancoSol is today the most profitable bank in the Bolivian banking system, with a 1998 Return on Assets of 4.1 percent and a Return on Equity of 29.8%.

- ACCION was a founding member and remains a shareholder in ProFund, the world's first private equity fund solely dedicated to microfinance investment. Based in San Jose, Costa Rica, ProFund's strategy is to achieve superior financial returns through the purchase of debt and equity in regulated financial institutions dedicated to serving small businesses and microenterprises in Latin America and the Caribbean.

- In 1995, the ACCION affiliate in Paraguay, nonprofit Fundación Paraguaya de Cooperación y Desarrollo, issued 350 million guaranies of debt through the Asunción Securities Exchange.

- The ACCION Gateway Fund was created in 1997 to support microfinance institutions in Latin America through equity or debt investments in:
  1. New, regulated microfinance institutions.
  2. Nonprofits in the process of transformation to a regulated financial status.
  3. Already-established, regulated microfinance institutions.

Currently the Fund has $5 million of committed capital provided by multilateral institutions. ACCION expects the fund to reach $10 million with the future participation of socially responsible institutional investors. In addition to providing long-term capital, Gateway Fund staff participate in governing these microfinance institutions, helping to assure they remain financially sound and committed to a social mission. Present investments include Mibanco (Peru), Banco Solidario (Ecuador), BancoSol (Bolivia), BanGente (Venezuela) and Génesis Empresarial (Guatemala).

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9 http://www.accion.org/about/main.asp
ACCION has also undertaken research to determine the impact of its model on family income. One ACCION study conducted in Bolivia, for instance, showed family income increasing an average of 30 percent after a few small loans. In the United States, a three-year ACCION study of 849 clients released in April 1998 revealed that after two loans over 17 months, take-home income increased 38% or an average of $455 per month. ACCION borrowers with the lowest incomes saw take-home income jump 54%, an average of $515 monthly. As a group, the 849 borrowers realized a $228,000 increase in monthly business profits and contributed $215,000 more each month to their households than they did before entering ACCION-affiliated microlending programs. A sub-group of 312 clients who received three loans or more reported the cumulative net worth of their businesses grew by over $1 million.

At the same time, separate studies have looked at the impact of ACCION’s programs on employment. In Latin America, impact studies conducted by ACCION programs in Colombia, Honduras and the Dominican Republic show that:

1. microloans help stabilize existing jobs;
2. microenterprises hire one additional employee for every $1,000 loaned.

In the United States, to date, ACCION has not seen significant job increases among its borrowers as a whole. Short-term U.S. borrowers, however, do show growth in jobs, adding, on average, 26 percent more full-time equivalent jobs to their businesses. This may be because short-term borrowers tend to have larger, more established businesses and to quickly "graduate" from ACCION programs to bank loans.

c. The Baden Kredit Kecamatan (BKK) of Indonesia

Baden Kredit Kecamatan (BKK) was originally established in 1970 at the initiative of the Governor of Central Java. BKK began operations in 1972 when the Provincial Government capitalized each of the Provincial Districts with an initial loan of Pr 1 million. BKK is owned by the Provincial Government of Java, and is part of the Bank Pembangunan Daerah (BPD) system, which is composed of separate institutions operating in each of seven provinces.

The Governor of Central Java is the nominal head of the BKK and has a 10-member provincial coordinating body and a 4-member district level coordinating body that help formulate policy. Financial supervision is the responsibility of the Central Java Regional Development Bank, which also provides technical assistance. It classifies the BKK units according to 1) total equity, 2) the ratio of villages to village posts, 3) the number of new borrowers, 4) the portfolio quality, and 5) total savings mobilized.

Worth noting is that BKK village posts are locally administered and financially autonomous; they do not function as branches of the BDP. However, they are not independently staffed. Rather, they are staffed by two BKK unit staff, who visit each village post for one day each week.

BKK lending procedures are designed to be simple to cater to the mostly poor and illiterate clientele. There are six different loan maturities: 1) Harian (daily), 2) Pasaran (every five days), 3) Minguan (weekly maturities), 4) Buiana (monthly loans), 5) Lapanan (every thirty-five days) and 6) Misuman (seasonal credit).

To further facilitate coverage, the BKK is a "mobile banking" system, providing standardized financial services at the village level. Lending and loan collection are often conducted on market days, to lower transaction costs to the clients and to the BKK staff. The initial size of the loan cannot exceed Pr 50,000 (about US$28). The loan process introduces villagers to the financial system and prepares them for larger loans.

Over time, savings have played an increasingly important role as the source of funds for the BKK. While obligatory savings had historically backed 16-20% of the outstanding loan portfolio, new savings instruments have been introduced that offer market-based returns and greater access to funds in the near future. This has increased voluntary savings five-fold over the last ten years.

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Based on unaudited financial statements, BKK's return on average annual equity is an impressive 13% (1989 figure). Financial expenses as a percentage of average annual assets have decreased over time; however, total administrative expenses as a percentage of average annual assets was higher than the state bank's during the same period.

BKK is an example of a successful microcredit institution that has used extensive outreach to extend credit to the poor. Transaction costs have been minimized by "mobile banking" schemes, while asymmetric information are lowered by the incorporation of the village head as a character reference in the borrower selection process. It is an often referenced example of a successful village banking system.

d. Other Earlier Efforts

In India, the Self-Employment Women's Association (SEWA), initially a trade union, established a cooperative bank in 1974 to provide credit and savings services to women denied access to commercial banks. In the mid-1970s, the Integrated Rural Development Program in India began providing credit and subsidies so poor people could acquire assets for self-employment. In 1981, Tulay Sa Pag-unlad Inc., based in the Philippines, began providing credit to women in metro Manila. In the early 1980s, the Indonesian government converted an ailing agricultural credit program into a successful banking network capable of extending small loans to millions of villagers. In 1984, USAID helped establish the Kenyan Rural Enterprise Program to generate employment through small loans using a group methodology similar to Grameen. In 1986, the first full-fledged Grameen replication opened in Malaysia. In 1987, Results (a Washington-based citizen's lobby), with the help of Yunus to push a Bill that would make provision in USAID's budget for at least $50 million in microenterprise loans to poor people. In December 1997, Congress passed and President Reagan signed a measure providing $125 million for microenterprise lending over two years. The world was viewing the microfinance contagium as a direct hit on poverty.

In contrast to the RDIs of yesteryear, the microfinance industry today emphasizes small-scale short-term lending; the need to charge market or near-market rates of interest; the importance of mobilizing savings among the poor; the need to gain access to capital markets; the value of convenience to poor borrowers; low overhead and simplified transaction processes; and social, rather than financial, collateral to ensure repayment (Woller et al. 1997).

C. What is the Objective of Microcredit?

The objective of microcredit is to provide profitable and sustainable financial intermediation to the poor, who are otherwise excluded from the formal credit system because of lack of collateral.11

Most of the world's three billion poor people cannot get jobs. Where they live, few jobs are available, and most of those that are available do not pay a living wage. To survive, these people must create their own jobs by starting tiny businesses or micro-enterprises. And these start-ups require capital, capital often not available through commercial lending institutions, because of the borrower's poor credit history or the institution's high interest rates. Their only alternative, aside from family members, or costly moneylenders, is to seek micro-finance from one of the more than 7,000 micro-finance institutions around the world.

John Webster of Wells, ME hit a long, downward slope after seeing his two young children struck and killed by a car, and the subsequent failure of his real estate company. "I had to rely on food stamps, fuel assistance and welfare," he recalls. "It takes a lot out of you." In and out of jobs, Webster fell back on woodworking, a skill he inherited from his father. He received so many compliments on a walking stick he'd made for himself out of a discarded Christmas tree -- a wide base for balance, a storage compartment and wood-burned designs -- that he began accepting orders from friends and neighbors. Turned down by banks, Webster, now 60, received a $600 Trickle Up grant in 1997, from the Manhattan-based micro-finance group of the same name, to pay for a booth at local crafts shows. Since then he has sold almost 300 walking sticks for $40 each and about 600 decorative boxes for an average of $8 a piece. "Small accomplishments can mean so much," says Webster. "This has changed my life."

In his article, "The Holy Cow of Microcredit: Why its Difficult to Swallow the Development Methodology that Surrounds the Grameen Bank," John Samuel describes how the microcredit movement has shifted the ideology of development. He illustrates how microcredit has been used as an "inducer" in many other community development activities by introducing a new series of developmental objectives that have come to be associated with this service, including:

1. Credit should be accepted as a fundamental human right;
2. Self-employment should be preferred over wage-employment as a faster and more humane way to combat poverty;
3. Women should receive top priority in development efforts because they are most acutely affected by poverty and they are the primary caregivers to children;
4. The concept of "development" should be redefined as an action that brings about an identifiable, positive change in the lives of the poorest 50% of the population; and
5. The "conceptual vagueness" of development theorists should be replaced by sharp and immediate attacks on poverty.

Building on Samuel's assertion that microcredit has redefined development objectives, the next section of this paper looks at the link between access to microcredit and the alleviation of poverty; the correlation between poverty and poor health status, including AIDS; and the role of microcredit in empowering women.

1. Microcredit and Poverty

   a. Poverty Defined

In spite of steady increases in the global standard of living since World War II, the World Health Organization reports that in 1995 more than one billion people, or one-fifth of the world's population, lived in extreme poverty. This label is not arbitrary. Extreme poverty denotes an economic condition in which household income is not sufficient to supply the minimum nutrition needed for growth and long-term survival. Consequently, the poor, especially the children, are more susceptible to illnesses that, for most people, are not usually fatal.

Every day, 35,000 children die before their fifth birthday as a result of chronic malnutrition and hunger-related diseases. The lives of nearly thirteen million children would be spared every year if poverty were eradicated. Women too are frequent victims of poverty; they are more often in poverty than men, according to detailed statistical studies. According to Kabeer (1996:19) Women "are given fewer opportunities than men to translate labor into income, income into choice, and choice into personal well-being."

Others argue that human poverty extends beyond income criteria (Anand and Sen 1997). They assert that human poverty is an amalgam of five conditions that comprise the Human Poverty Index (HPI). The HPI considers: the proportion of deaths below age 40, the proportion of illiterate, the proportion without access to safe water, the proportion without access to health services, and the proportion of underweight children below the age of 5.

Although this index is heavily weighted toward basic health outcomes, it yields interesting results when compared with income poverty. In the Arab States, income poverty was reduced to 4% by 1993; however human poverty was still 32% (1997). Conversely, in Latin America and the Caribbean, human poverty was reduced to 15%, but income poverty hovers around 24% (UNDP 1997:23).

Regardless of the criteria used to categorize the poor, one thing is clear: the majority of the poor live in developing countries. India and China together account for nearly one-third of the world's poorest twenty percent. While income maintenance programs have helped alleviate some forms of poverty in wealthy nations, they have done little.

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to alter the social and psychological consequences of powerlessness and dependency that make poverty nearly as debilitating in London or rural Alabama as it is in Khartoum or Manila.

b. Urban versus Rural Poor

Muhammad Yunus once said that "the best way to combat the world's most entrenched poverty is to create the conditions whereby millions of tiny entrepreneurs scattered in hundreds of villages and small towns could support themselves through self-chosen pursuits. Not wage-employment, but self-employment; not giantism, but gradualism; not cities, but villages; not men, but women (Bornstien 1996: 23)." This, he felt, was the way to help people stay in their villages, rather than flee to Dhaka to settle into slums. Yunus, like many others, knew that fleeing to the "mega" and "million plus" cities was not the panacea envisioned by the impoverished. These "super" metropolises offer their own brand of destitution.

Since the 1970s, the mega- and other large cities of the developing world have witnessed, on average, a doubling of population size. This trend is projected to continue. According to the World Urbanization Prospects, published by the United Nations, nearly all growth in coming decades will occur in urban areas. Of particular importance is the growth "million-plus" cities, rather than "mega-cities", since cities of one million or more encompassed 36% of the urban population versus mega-cities where 8% of the urban population resided in 1995.

The squalor and disease that results from this steady urban migration calls into question the long-standing presumption that living conditions in developing countries are superior for big-city residents (Brockerhoff, Brennan 1997).

In Joseph Gugler's The Urban Transformation of the Developing World, contributors de Oliveira and Roberts note that in Latin America, the most urbanized of developing regions, nearly three-quarters of the population lives in cities and towns. Meanwhile, the poorest households survive at the fringe of subsistence, as sharp reductions in expenditure have led to a worsening of nutritional levels and their exclusion from public utilities, such as water, light and gas (Brockerhoff, Brennan 1997). In sub-Saharan Africa, continuing mass out-migration from impoverished rural areas and a high population increase has fueled persistent and rapid urban growth, at nearly twice the world average, putting increased pressure on already strained economies and management capacities of both large and small urban centers. Indeed, the population of most African cities has grown seven-fold since independence, and some have grown more than ten-fold.

In Asia, many of the largest cities are experiencing dramatic economic growth. Metropolitan regional growth has sprawled along major expressways and railroad lines radiating out from urban cores, and has extended in all directions, putting down new towns, industrial estates, housing projects, and other urban forms in areas once considered agricultural and rural (Brockerhoff, Brennan 1997).

The largest cities of the Indian sub-continent have absorbed immense population increments in recent decades, yet are now experiencing a decline due to lack of jobs, compounded by a deteriorating quality of life in urban areas (Brockerhoff, Brennan 1997).

"The welfare of city residents in developing countries is strongly influenced by both the size and the recent pace of growth of the cities in which they live. The odds of infant mortality, used as a summary indicator, are greater in cities with more than 1.5 million residents, than in medium-sized cities of Latin America and the Caribbean, and North Africa/Asia, by 36% and 19% respectively. Long-term city growth rates in excess of 5% a year have

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unfavorable effects, raising odds by 24% in North Africa/Asia, 28% in Latin America and the Caribbean, and 42% in tropical Africa. Moderate growth of 3 to 5 percent per annum has adverse results in sub-Saharan Africa of almost equal magnitude (Brockerhoff, Brennan 1997:16).

In conclusion, large cities with rapid population growth suffer from inefficient urban management, expressed as: inadequate responsiveness, accountability, and management of municipal governments; insufficient mobilization of community resources; and lack of private sector involvement in bridging supply-demand discrepancies. The unfavorable living conditions resulting from this inability to absorb growth leads to increased risk of infant mortality, a vital marker of community welfare.

The literature appears to support the microcredit movement as a mechanism to reduce poverty generated by rural flight. Michael Todaro19, in his essay, "Urbanization, Unemployment, and Migration in Africa: Theory and Policy," suggests that falling wages, diminishing social services, and changing demographic growth evident in the growing urban areas can best be addressed by retaining a greater portion of the rural population. Todaro recommends specific measures for doing this, including: 1) creating an appropriate rural-urban economic balance by undertaking a more integrated development of the rural sector, through the spread of small-scale industries throughout the countryside, and the reorientation of economic activity and social investments toward rural areas; 2) expanding small-scale, labor-intensive industries directly through government investment and incentives, or indirectly through income redistribution to the rural poor, whose consumer demand is more labor-intensive than import-intensive; and 3) reducing population growth through reductions in absolute poverty and inequality, particularly for women, along with the expanded provision of family planning and rural health services (Todaro 1997: 2, 43-46).

2. Poverty and Health Status

Worldwide in the 1990s over one billion persons are estimated to have a purchasing power of below a dollar a day, the conventional demarcation of absolute poverty. The developmentalist strategies behind many of the strongest economic growth performances of recent decades have been associated with poverty alleviation and fertility decline.

In the mid-1990s, the population growth rate of the world's less developed regions - about four-fifths of the total world population, according to the UN - was about 1.7% per year, well below its 1960s peak of 2.5%. Average fertility had fallen from 6 children per women to 3 children per women, and continues to decline. However, there is a section of the less developed regions, namely those countries falling into the category of "least developed," where demographic conditions of the 1960s or earlier still prevail. The 10% of the world's population inhabiting these least developed countries amounts to about 700 million people. These countries combine rapid population growth (2.6% per year) and rates of economic growth that for several decades have left per capita incomes virtually unchanged (averaging about $1000 per year in purchasing power terms in the mid-1990s) 20. These same 700,000,000 people are subjected to a combination of extreme poverty and financial insolvency that marks them for a special kind of despair and economic isolation. They escape our notice almost entirely, unless war or an exotic disease breaks out21."

Of children who die before their 5th birthday, 98% reside in the developing world, principally in the least developed countries. Of people who are HIV positive, some 95% are in poor countries. Of the millions who die prematurely of tuberculosis, malaria, measles, tetanus and whooping cough, all but a few live in the third world22.

In short, where there is poverty there is disease; where there is destitution there is death; where there is rampant population growth there is spiraling economic decline.


22 "Helping the Poorest." The Economist August 1999: 11-12.
To date the AIDS virus has infected close to 50 million people, and shows no signs of slowing. In developing countries the disease continues to spread aggressively. Indeed, of people who are HIV positive, some 95% live in poor countries.

At a macro level, the impact of AIDS is felt gradually, but at the micro level - the household level - AIDS hits with the strength and speed of a hurricane. When a breadwinner develops AIDS, his (or her) family is impoverished, not once, but twice: first, the afflicted loses his/her income; then other contributions are lost when relations are forced to dedicate time and money to nursing the patient. Often, daughters are required to drop out of school to help. Worse, HIV tends not to strike just one member of a family, but has been known to systematically infect entire clans (Economist 1999). Studies suggest that by 2010 the AIDS epidemic will have left behind 40 million orphans in the 19 sub-Saharan countries.

For poor countries, the only practical course is to concentrate on prevention. However, the severity of the situation begs for tactics that are beyond those that traditionally involve training and education in disease transmission and prevention. Because of its potential impact for alleviating poverty, stalling urban migration, and empowering women, microcredit should be included on the menu of strategies that can avert the transmission of HIV, specifically:

Poverty. Those who cannot afford television find other ways of passing the evening. People cannot afford antibiotics, so the untreated sores from STDS provide easy openings for HIV. The creation of jobs may do more to avert the spread of HIV better than health training and education.

Migrant Labor. Since higher wages can often be found away from the home, or even outside the country, it is common for migrant workers to engage in sex with new or multiple partners. This is particularly prevalent where migrant workers spend most of the year in single-sex dormitories surrounded by prostitutes. Providing these same workers with the resources and training to start their own micro-enterprise may mitigate their chances of contracting HIV from prostitutes, or transmitting the disease across urban and rural boundaries.

Sexism. In most poor countries, it is hard for a woman to ask her partner to use a condom. Wives who insist risk being beaten up. At the same time, where war is ongoing, rape is common, and forced sex is a particularly effective vehicle for HIV transmission, because of the extra blood. Making microcredit available to qualified women can help build their self-esteem, particularly where the extension of a loan leads to the establishment or expansion of micro-enterprises.

As is illustrated in this section, the merits of microfinance include not only poverty alleviation, but also disease prevention. Instituting a program that increases one's opportunity to generate income will have a positive impact on the health status of children and adults alike. Chances are that some portion of that income will be used to purchase better provisions; pay for transportation to health services for vaccinations, and other primary health services; install a well, and procure firewood to boil water; and matriculate children in school. Microcredit can serve to stall urban migration and the sexual promiscuity that accompanies it. And finally, gainful employment can give a woman the confidence to take charge of her reproductive life.

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Microcredit and Empowerment: The Drive to Extend Credit to Women

Nejira is a Bosnian refugee from a small village near Srebrenica. Like most women from this region she lost her husband and her home during the recent conflict. She lived with her two children in a refugee center near Tuzla on humanitarian aid. She had nothing to do except to think about the past and cry. Under the Local Initiatives Pilot Project initiated by the World Bank, a Bosnian NGO proposed small loans for income-generating activities. Nejira hesitated for some time. She had never handled money; that had been the responsibility of her husband. Finally she decided to borrow DM 500 (US$ 330) to buy a goat. She knew how to raise the farm animals and she could sell the milk. Since then, she and her children feel some hope that life can begin anew.

Microfinance programs are currently being hailed as a successful strategy for addressing both poverty alleviation and women's empowerment. Mayoux (1997) has suggested that giving women access to microcredit for the establishment or expansion of microenterprises can potentially contribute to:

- increased women's income levels and control over income, resulting in greater economic independence
- improved access to networks and markets, offering loanee exposure to the world beyond the home or village
- enhanced perceptions of women given their contributions to household income and family welfare, precipitating a greater decision-making role in the household

Indeed, studies, such as the one conducted by Amin et al., have demonstrated that by extending microcredit to women, these programs have significantly increased women's authority, economic sovereignty, self-confidence, and status within the household and the community.

Further substantiating Amin's findings are those generated through the work of Ruhul Amin, Stan Becker and Abdul Bayes, who during 1998-99 attempted to explore the relationship between poor women's participation in microcredit programs and their empowerment. The team used empirical data from rural Bangladesh (The Journal of Developing Areas, winter 1998, Vol. 32, No 2, Pages 221-236) to study the relationship between participation in credit and credit-related activities and the level of empowerment of the members compared to non-credit members. The study also looked at the association between the duration of credit membership and women's empowerment. The research was undertaken by examining quantitative data collected from a representative sample of the female borrowers, as well as qualitative data from selected female borrowers in five NGOs from rural Bangladesh. The authors compared NGO credit members from an NGO program area with non-members from a non-program area to infer whether or not variation in empowerment could be explained by the variation in memberships. Similarly, non-members of NGO program areas were compared with non-members from non-program areas to consider the diffusion effect of NGO credit membership on women's empowerment among non-members.

The concept of women's empowerment was divided into three components and measured separately to better identify the factors that underlie women's empowerment. These separate indices are the intersperse consultation index, individual autonomy index and authority index. The three options were given different weights - "generally" was assigned a value of 1, "never" a value of 0 and "occasionally" a value 0.5.

The results showed that the NGO credit members are ahead of the non-members in all three indices of empowerment, irrespective of nonmembers' residence in program areas or non-program areas. Moreover, the nonmembers within NGO program areas show a higher level of empowerment on the autonomy and authority indices than do the nonmembers within the comparison areas. The results further indicate that education, house type, yearly income etc. tend to be positively associated with autonomy and authority indices. Also positively associated are duration of NGO membership and non-agricultural occupations.

At the same time, the findings from this study are contrasted by other, less scientific studies and anecdotes.

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Edith Kagino is a casualty of micro-credit. Before she was married, Edith used to help her mother to keep cattle in Luweero, where she developed an interest in dairy. After marriage she worked in her husband's workshop. In 1991, she opened a savings account with the Uganda Women's Finance and Credit Trust and she was a regular saver. She acquired a loan in 1992 for two in-calf heifers and for the construction of a small cow shed. She used a portion of the loan to plant napier grass to feed the cows. Edith started off very well, with the first cow calving normally. Problems started when her husband instructed her to return to her previous job in his workshop. Forced to return, she could no longer take care of the cows, and eventually she lost one of them. She had discussions with her husband about the importance of her project and the repayment of her loan, but he insisted that she should remain in the workshop. Her husband eventually chased Edith away from her home. She had to find shelter for herself and her seven children. The husband claimed the cows as his, so she was not allowed to take them. After some months, the husband called her back. But he had already sold the roofing sheets and construction materials of the cowshed and all the grass was gone. After a period, she got pregnant again, and soon after her husband decided to live with another wife. As a result, Edith's project is marked as a doubtful debt.

Stories like Edith's suggest that there is a darker side to the microfinance phenomenon (Mayoux 1997). There is evidence that many programs have had negative, as well as positive impacts on women. The establishment of small enterprises by women may lead to small incremental increases in income, yet this often comes at the cost of heavier work loads and repayment pressures. Other accounts tell of loans being pirated by spouses or male family members to set up their own enterprises, over which women have little control. In some cases women have been employed as unpaid family workers with little benefit. There are even examples showing that women's increased autonomy is only temporary and can lead to the withdrawal of male support.

Susan Johnson's work reveals that recognizing gender issues in microfinance, as in any project intervention, requires more than targeting a program towards women. It means recognizing the position of women in relation to men as actors in society: in the context of husbands and families; local community and authority and more broadly their position in society at the national level as governed by laws and custom. Programs must then be prepared to support women to overcome the obstacles they face in these relationships, which prevent them from achieving their financial goals.

Johnson developed the matrix below to illuminate which constraints inhibit women borrowers from using their loans to achieve their financial goals, and where these constraints are manifested.

---

<table>
<thead>
<tr>
<th>Individual Level</th>
<th>Household Level</th>
<th>Wider Community Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refers to constraints that operate because of the woman's own endowment of skills, experience, knowledge, confidence</td>
<td>refers to the nexus of social relations within the household, primarily husbands and wives, but not precluding sons and daughters, parents and other relatives to constrain the set of choices, which a woman faces</td>
<td>refers to behavioral norms, legal rights and perceptions of the value of what women do.</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td><strong>Men's control over cash income; men's expenditure patterns differ</strong></td>
<td><strong>Perception of men as controllers of money/loans</strong></td>
</tr>
<tr>
<td>Women lack access to banks/financial services in own right</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td>Gender division of labor; unequal access and control of land, labor and inputs; unequal control of joint household produce and income stream from this</td>
<td>Women underpaid for equal work; women locked in low paid jobs; stereotypes of appropriate roles for women in the economy; women lack access to markets for inputs and outputs if mobility constrained due to social norms</td>
</tr>
<tr>
<td>Women undertake activities which produce low returns; women have a heavy domestic work load</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Social/ cultural</strong></td>
<td>Limited role for women in household decision making; polygamy results in conflict/competition and discrimination between wives; violence towards women</td>
<td>Banks and financial institutions do not view women as a potential market; women's mobility constrained by social norms</td>
</tr>
<tr>
<td>Women not literate or educated; girls education not prioritized</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Political/ Legal</strong></td>
<td>Women lack legal rights to jointly owned household assets</td>
<td>Women's legal rights to household assets not defined in law or useful for collateral; women lack political positions to establish appropriate laws; women lack legal rights to land both traditional and formal</td>
</tr>
<tr>
<td>Women lack confidence to claim political/legal rights</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Broadly speaking, strategies to address these constraints are likely to fall into three categories:

1. strategies which address women directly with awareness, literacy and related skills development
2. strategies directed at men in the community, in which the project is working, to affect men's behavior towards women within the household and the local community
3. strategies aimed at affecting social norms and legal frameworks, which might include advocating work through the media, as well as lobbying to give women property rights

The research undertaken to look at women's empowerment as a result of income generation implies that microcredit can help poor women in three ways: First, by providing independent sources of income outside home, microcredit tends to reduce economic dependency of the women on husbands, and thus help enhance autonomy. Second, the same independent sources of income, together with their exposure to new sets of ideas, values and social support, should make these women more assertive of their rights. And finally, micro credit programs - by providing control over material resources - should raise women's prestige and status in the eyes of husbands and thereby promote intersperse consultation.

At the same time, however, the success of some microfinance institutions in enlisting large numbers of women as their members has propagated the belief that microfinance is an intervention uniquely beneficial to the needs of women. On the contrary, microfinance can not right the power imbalances, which result from gender inequalities that are deeply imbedded in cultural mores. Microfinance can, however, make notable contributions, but only if there is a commitment to such an outcome, coupled with a sound strategic approach.
D. Lessons Extracted from Part I

This portion of this paper underscores the potential impact of microcredit on macro-measures, such as: poverty alleviation; urban migration; women and children's health status, including HIV transmission; and women's empowerment. Similarly, Part I hints at several micro-metrics that are strengthened through microfinance, including: higher savings rates, returns on equity and assets, new business development, enhanced group cohesion, increased household income, and elevated rates of local employment. What is not featured in this discussion is a package of macro- and micro-metrics that can be employed by microfinance institutions to systematically assess their contribution to these outcomes.

However, a careful review of the text discloses several possible metrics, such as:
1. The increase in the number of employees hired by a microentrepreneur.
2. The increase in the Loan Group's savings rate over time.
3. The utility of Lending Groups to monitor or enforce contracts and to help screen good borrowers and strong business ideas.
4. The relation of interest rates charged by microfinance institutions to those charged by commercial banks.
5. The increase in return on equity and return on assets over time.
6. The extent to which microfinance organizations are conveniently located to their clients, and the simplicity of their transaction processes.
7. The number of annual start-ups and their solvency at specific time intervals.
8. The proportion of income used, over time, on health care services, provisions, hygiene, and children's schooling.
9. The availability of information, through the microcredit program, about such topics as health, legal rights, sanitation, and other relevant concerns.
10. The rate of fertility as related to increased household income through a microenterprise endeavor.
11. The rate of HIV infection in microcredit program areas.
12. The rate of contraceptive prevalence amongst members of microcredit institutions.

The next section of this paper will discuss the organization of microcredit institutions, and will explore topics, such as governance, sources of financial capital, new trends in profit transfer, and the allocation of credit. Once again, a metrics lens will be applied to distill the micro- and macro-metrics that can facilitate the assessment of microcredit institutions.
Part II: The Organization of Microcredit Institutions

"Money is like manure. If you spread it around, it does a lot of good. But if you pile it up in one place, it stinks like hell."

- Clint Murchison, Jr., quoted in Time, June 16, 1961

Microcredit describes seemingly very different forms of financial services offered by equally dissimilar organizations (refer to Figure 2). Nonetheless, microcredit always refers to credit extended by formal institutions to individuals or informal groups. Normally, the formal institution has been set up or is currently financed or supported by donor aid, or what constitutes the "Social Responsibility" department of a commercial bank. Microcredit concerns very small amounts: initial loan amounts rarely exceed US$200 and usually are below US$50. Although business development is often a major rationale behind microcredit programs, microcredit is also used for construction, emergency consumption, education and social expenditure.

### Figure 2: Illustrative List of Credit Suppliers

<table>
<thead>
<tr>
<th>Credit Supplier</th>
<th>Purpose</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transactional Credit Suppliers</strong></td>
<td>Transactional credit suppliers are those who provide credit as a transaction. Examples include money lenders, pawn brokers, employers/traders credit etc. The central idea of such suppliers is their timely credit; credit is made available immediately, when it is most needed.</td>
<td>Strong information links Close physical proximity to the borrower Information campaigns, awareness building Implications for operational aspects Less procedure and paperwork in establishing credit worthiness Flexible &quot;office&quot; timings</td>
</tr>
<tr>
<td><strong>Mutual Credit Suppliers</strong></td>
<td>As the name suggests, credit is supplied in a mutual fashion, where both borrowers and lenders are interchangeable in the credit cycles. Examples include ROSCAs, community credit groups, credit societies, etc. The central idea of such suppliers is their savings-linked credit.</td>
<td>Loans are given out only after a specific amount is saved Loans can be a multiple of amount saved Information links and screening of members for commitment and group/collective collateral Implications for operational aspects Development of a dynamic network to mobilize savings (timing and location being important criteria) Programs that incorporate enforced and voluntary savings</td>
</tr>
<tr>
<td><strong>Personal Credit Suppliers</strong></td>
<td>Personal credit suppliers are usually single individuals who supply credit on a &quot;casual&quot; and unencumbered/reciprocal basis.</td>
<td>Very personal and proximate relationships Development of cohesiveness and group activities to bind members together Tailor loan terms and conditions to specific needs and borrowers Implications for operational aspects Explore alternative ways of screening for credit loans (i.e. non-conventional, non-marketable assets for collateral, if necessary) Gender-specific programs Located close to the borrower Easily understood terms and conditions Campaigns (audio/visual) to encourage savings from households</td>
</tr>
</tbody>
</table>

Source: Based on field work in 6 squatting settlements in Bangalore, India (June-July, 1991).

Like its more traditional counterparts, institutions involved in extending microloans are subject to the problems of asymmetric information and opportunism\(^{26}\). The lenders are never certain of the reliability of their loan recipients, nor what they will ultimately use the loan to accomplish. They rely on the word and faith of the loan groups or village extension workers to help with the selection process. Unlike more traditional banks, however, microcredit institutions have little flexibility in dealing with the problem of delivery costs; microcredit deals with small loan amounts, tiny, but frequent repayments, and rapid loan roll-over; therefore, cost-efficient delivery systems assume great importance.

For these reasons, governance of microcredit organizations is critical to their sustainability. This chapter describes some of the guidelines, policies and procedures employed by micro lending institutions, including:

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selection, loan utilization, the location of the loan establishment, loan size and repayment schedules, rates of interest, savings mechanisms, and training programs.

Additionally, the chapter details the sources of microfinance and offers a detailed discussion of the approaches to microfinancing the small enterprise. The chapter concludes with a consolidation of the micro- and macro-measures covered in this portion of the paper to assess the potential success of microfinance institutions.

A. How are Microcredit Organizations Governed?

1. Borrower Selection

There are generally three targeted borrowers: women, young adults, and the rural poor. Some lenders specifically target microcredit at women, who are usually seen as economically less independent than men in the same social group. The rationale is that benefits from their economic empowerment directly extend to their children. Therefore, from a social equity point of view, women are often seen as more desirable borrowers than men.

Another important group at which microcredit is sometimes targeted is young people. With high youth unemployment and insufficient job creation by the formal sector, school drop-outs face disillusionment. An unemployed, impoverished youth may well be seen as a threat to the social fabric of society. Hence, creating opportunities for income generation is considered a priority by some lenders and donors.

An alternative target group may comprise rural people, because they are seen as unable to benefit from development and employment creation in cities and towns. Finally, other social criteria for selecting a target group may be factors, such as ethnicity or nationality, or factors of social disadvantage like a physical disability.

Targeting specific sections of the population has not only social but also economic implications. There are two sides to it: first, different groups may be variably efficient in utilizing micro-loans in creating viable enterprises, and second, different groups typically have different repayment patterns, thus impacting on the sustainability of micro-lenders. Therefore, the social desirability of lending to a specific group of people does not imply financial sustainability for the lending institution²⁷.

In most credit schemes it is found that women are better risks than men. They pay more punctually, and they default less often. Therefore, the targeting of women is not only socially desirable, but also makes economic sense. Lending to youth is different. Young borrowers - those below 25 or 30 years - typically have lower repayment rates than older borrowers. So, while it may be seen as socially desirable to lend to youth, there is a risk premium attached. And not only is it more expensive to lend to youth, they also appear to be less successful in using the loans for setting up viable enterprises (Renke1999).

Reaching the rural poor is difficult; it is expensive to maintain outreach structures in rural settings with poor infrastructure and low population density. However, as Grameen's Yunis often argues, the higher social stability in rural communities aids the reliability of financial relationships, through the building of social capital amongst members of the loan groups.

Indeed, over time microcredit and group credit have became almost synonymous. Terms such as solidarity and peer pressure have become associated with sustainability, high repayment rate, and outreach. This association is arguably attributable to the well-publicized successes of the Grameen Bank in Bangladesh²⁸. However, international experience, such as that of Renke, is more diverse, and suggests that sustainability and cost efficiency are more easily achieved without the so-called Group Loan methodology.

a. Group vs. Individual Credit

Group lenders have extensive relationships with their clientele. Often, they offer advice and support that is quite unrelated to enterprise development. Social empowerment and even health matters are often discussed, and, sometimes, social gatherings - parties - are part of their working procedures. Frequent meetings are an important part of group lending schemes: they are crucial to the transparency and information sharing on which joint liability depends. Meetings are usually fortnightly, with an attendance of around six borrower groups, usually around thirty borrowers, and are attended by a credit officer. The function of meetings, and other forms of social interaction, in group credit schemes is not purely economic, while meetings are part of the credit operation, they also have a social role. Group credit schemes have, therefore, more functions than credit extension alone.

By the same token, social interaction is time-consuming, both for borrowers and for credit officers. Therefore, group credit is expensive if borrowers value their time. Also, and maybe even more important, the time-consuming nature of interaction between borrowers and credit officers limits the number of borrowers who can be served by a credit officer. While it is often claimed that credit officers can supervise several hundred group members, experience in Southern Africa shows that 150 is a more realistic aim. Due to the group lending structure, this implies that per credit officer, only about 30 loans would be outstanding at any time. Hence, credit extension will be staff intensive and transaction costs accordingly high.\(^{29}\)

Avoiding group structures will greatly reduce the costs associated with establishing and maintaining group networks. However, extending credit to individuals without collateral and without group pressure exposes the lender to greater vulnerability towards free-riding and opportunism. Therefore, sufficient safeguards need to be applied to aid the selection of appropriate candidates and to enforce their compliance with rules and obligations (Reinke, 1998).

Several credit schemes now exist that do lend to individuals with great success. The safeguards they apply range from training requirements to credit rationing; some require that borrowers pledge savings as security; others tap local knowledge by requesting "character certificates" from local worthies who are compensated according to the performance of their flock.

Through various mechanisms, these rules create an incentive structure that penalizes default through forced withdrawal from the scheme. Several studies (Reneke 1998) show that micro-lenders that apply such safeguards for lending to individuals extend credit more efficiently than group lenders, taking into account both administrative costs and defaults.

In summary, group credit may be more appropriate in densely settled areas with high social stability and low wage costs; under these conditions, meetings can be convened without long travels, groups can be expected to be long-living, and the time-intensive nature of lending would entail relatively lower costs. Credit schemes lending to individuals are better suited where efficient transfer mechanisms are available, and where non-credit services - community development - is less important.

2. Utilization of Loan

Microcredit is often associated with small business development. However, money is fungible and small businesses are often practically parts of private households. Therefore, microcredit may find its way into financing projects of which the lender is unaware. Still, the question should be considered whether credit should be targeted at specific activities.

Some credit schemes do not seek to target their loans to any specific use. They may assume that poor people themselves know best how to better themselves, and that some apparently consumptive expenditures may well have investment properties. Conversely, offering consumption credit to the poor may lead them into debt and deepen

their economic dependence. Societies with little debt problem and a strong entrepreneurial culture may thus be a better environment for offering untied microcredit than societies where entrepreneurial activities need decisive encouragement. The view and objectives of a lender will determine the choice.

More controversial, generally, is the question whether specific sectors are more promising for the establishment of small enterprises, and whether loan availability should be made conditional on the sector identified in a business proposal. Many new business ventures at the micro level are, in fact, based on trading activities, either hawking or operating truck shops. Arguably, the establishment of more trading enterprises in specific locations does not increase the purchasing power of their clientele and offers few developmental benefits. More traders implies reduced profits for those already in business, and potentially undermines the viability of all. Therefore, the common argument is that microcredit should be directed away from trading activities. Opponents of this view, which is supported by empirical evidence, hold that trading is often the start of a more creative enterprise, trading profits can be reinvested into manufacturing equipment (Renke 1999).

3. Location of the Loan Establishment

When designing the lending technology of a micro-lender, two important decisions need to be made about the role and establishment of a branch network: first, are branches needed? and second, where should they be located?

Decisions about the location of a micro-lender are largely determined by the intended target group. Many think that if you serve a rural clientele, you should reside in the countryside. If you serve a poor urban clientele then you should operate in those areas in town where hawkers live and artisans work. In many instances, such reasoning leads to poor choices. Cities, and city centers, usually have the best infrastructure. From the central bus station of a city or town, one can usually reach more rural people within one or two hours, using public transport, than from any place in the countryside. The city center is usually easier to reach for a larger number of people than an outlying area.

Obviously, this problem is relevant only when contact with clients is part of the lending strategy. If no such contact is necessary, then location should be determined based on considerations of cost or convenience. Hence, the necessity of maintaining a branch network is determined by the role of follow-up procedures and the choice of payment systems.

The question about the necessity and location of branches is closely related to the need for finding an appropriate payment mechanism. Credit extension is, from one angle, the service of getting money out to people and getting repayments back from people: lending is the business of moving money. When microcredit established itself, many practitioners thought of it as "Village Banking." At this time, the image dominated the minds of donors and aid officials of "Community Bankers" living in villages and providing services in their neighborhood. Such community bankers are cash-carrying agents, working on behalf of larger, formal microfinance institutions^30.

However, since then, a wide variety of methods have been developed and successfully applied. Cash-carrying credit officers are now the exception rather than the rule^31. Several institutions have started to use electronic transfer systems to move funds between clients and lenders in cooperation with commercial banks, which operate sophisticated transaction infrastructure. Such facilities are not available in all developing countries, but they have been successfully used in South Africa and are available in towns and large villages in Botswana. At an intermediate level, postal savings banks exist in most developing countries. Their transaction systems, although typically not as fast and with slightly higher marginal costs, can handle small and frequent payments, to and from every post office.

4. **Loan Size and Repayment Schedules**

Loan size, it is sometimes argued, follows the decision of the target audience: if the very poor are aimed at, then loans should be very small. If the capital requirement of entrepreneurs is high, loans need to be large. This view defines loan size from the perceived loan needs of the borrowers. While there is little to disagree with such a view, it should be considered that loan size is a principle weapon in fighting opportunism. Just the right dose of credit rationing may help to enforce repayments.

Most microcredit institutions use staged credit programming to enforce repayment. Access to future larger loans is made dependent on punctual and full repayment of small initial loans. Such staging requires that entrepreneurs are kept hungry for capital. Loan staging in microcredit is similar to the assessment used by credit-card companies, which base overdraft limits, partially, on repayment history. Generally, loan decisions in the micro-field are more similar to those in consumer lending than those in formal business finance.

There are instances where credit rationing and staging is not an option; such cases include entrepreneurs requiring capital goods, i.e. 'lumpy' expenditure. In these cases, other enforcement systems must be used. Such loan schemes are likely to be administratively more expensive and possibly more cumbersome from the borrower-perspective. Loan schemes where staging is not used tend to generate better when a long-term relationship exists between lender and borrower. Such a relationship may be based on extensive training or long-standing social relationships. This condition could be met, for example, by graduates of vocational training schemes, wishing to borrow for setting up their own business, or members of credit unions.

5. **Rates of Interest**

As is the case with any loan institution, charges and interest rates need to be set high enough to cover costs. Still, other factors, such as fairness and redistribution objectives also influence the level of interest rates, or the range of services offered. Although even large and supposedly successful institutions subsidize their interest rates, the goal of cost-recovery persists, so creative forms of self-subsidy exist. In some cases, charges, such as membership fees, can be used to hide interest rates. In other cases, micro-lenders generate income from non-credit services, for example by selling business implements to their clientele. Some institutions have used such lines of business successfully to establish their viability.

In fact, most microcredit programs offer more than merely loans; typically, business advisory services are available free of charge, some schemes offer insurance or bonus payments, and some even more extensive support relating to social and economic issues. Micro-lenders then claim that charges and high nominal interest rates contain payment for these non-credit services.

6. **Savings Mechanisms**

Many micro-lenders require their clientele to accumulate savings both prior to and during borrowing. Savings can perform various functions: people who save are more prudent, so arguably they make more reliable borrowers; savings behavior helps to determine their debt capacity; and savings can be used as collateral. Thus, self-selection, screening, and enforcement may be aided by savings accumulation.

However, savings requirements have disadvantages: they exclude potential borrowers, they slow the expansion of credit extension, and they seem to contradict the very logic of micro-lending. One important question, fought over with vigor, is whether savings should be used to obscure real interest rates. Especially when savings are pledged as collateral, with the difference of deposit and lending interest rates providing

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profit for the lender. There is a heated discussion whether such profits are a justified means for making micro-lending schemes viable.

Although many micro-lenders incorporate into their lending strategy a compulsory savings component, only few operate discretionary savings schemes. Such schemes can appear desirable, since savings mobilization and the development of self-sufficient intermediaries are higher policy objectives than the formation of subsidized lenders. However, discretionary savings schemes are relatively expensive to run and may not be easily compatible with the demands on an efficient micro-lender.

Some micro-lenders use their clients' deposits as loan funds. This is an important factor for the viability of a micro-lender. Some institutions claim that their savings scheme provides a low-cost source of funds for their lending operation.

7. Training Programs

In many microcredit programs, there is an intimate linkage between training and credit. The benefits of linking credit with training are many; from the perspective of micro-lenders the most important effects are self-selection and capacity building. While many people will want to borrow, fewer are prepared to undergo training in order to become eligible for credit. Most entrepreneurs are unaware of their skill deficiencies, and therefore they are unlikely to seek training voluntarily. Nonetheless, when access to credit is conditional on undergoing training, many come to appreciate the value of training.

Training can be offered basically in two forms: there is vocational training to equip entrepreneurs with the technical skills needed for running a service or manufacturing enterprise, and there is business training to help entrepreneurs cope with the managerial aspect of running their own enterprise. Technical-skills training requires more generous funding and typically takes much longer. Business skills training can be fruitful on a very basic level, and is often urgently needed prior to set-up. In many cases, both types of training are offered jointly, and both lead to better self-selection and enhanced survival rates of new enterprises. From the lender's perspective, this has the benefit that more borrowers will succeed in their business plans, and more will be able and willing to repay their loans. However, there are obvious disadvantages: training is costly, and training will exclude some potential borrowers.

When working with poor people, it is unreasonable to expect that they will be able to pay for their training up-front. Hence, training requires an initial outlay from the lender or a separate donor. Where appropriate training programs already exist, potential lenders may target their lending at its graduates. In this case, the advantage of access to selected and able borrowers can be enjoyed without associate costs undermining the viability of the microcredit scheme.

However, the problem of exclusion still arises. Even when training is offered without charge, some borrowers will not be able to afford the time. Those who do already have a business may feel that they cannot afford to be absent for long, others may have family commitments. Very poor people cannot afford to take a few days off, not even for training. In response, some lenders have organized very short training courses, some taking as little as two hours. The benefit of very short training will be much reduced, both in terms of self-selection effects and learning. But it may still pass on basic business knowledge, especially when concepts such as interest, capital, credit and repayment need some explanation.

B. Who has the Financial Capital?

Over the last ten years, certain strong microcredit institutions in developing countries have shown that after five to seven years of operation, they can achieve the size and efficiency levels that enable them to cover their operating and financial costs, without requiring additional subsidies. The savings of program clients are often used to expand further loan capital and credit operations, therefore reinforcing sustainability. However, many more microcredit institutions in developing countries are still operating at small and intermediate scales, requiring a mix of grants, concessional lending, loan guarantees, and commercial rate lending by commercial banks and financial institutions.
1. Grants and Donations

For the thousands of existing microcredit institutions still operating at small and intermediate scales, and for new microcredit institutions, grants and donations are needed to support their early years. Grant funds are needed to finance salaries and training of staff, the establishment of basic service infrastructure, and the buildup of loan portfolios that enable these institutions to demonstrate strong repayment performance. Grants and donations are also needed to fund program innovations, as more mature microcredit institutions seek to provide an expanded range of services to their clients. The key sources for this type of assistance are multilateral and bilateral aid programs and national and local governments. Other sources are private donors, grant-making organizations, service clubs, religious organizations and corporations.

Even during the early stages of a program's development, care needs to be taken to ensure that these external funds support rather than substitute for local mobilization of funds. Many of the strongest microcredit institutions, particularly in Africa, have the savings of very poor clients as the main source of their loan funds. Where possible, external grants should be structured to support the build-up of the capital base of the microcredit institution. With a strong capital base, microcredit institutions can build their operations and loan portfolios, and leverage commercial funds without relying on permanent, external support.

2. Concessional Loans

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

3. Guarantees

Guarantees are a way for donor agencies and institutions to make efficient use of their limited resources by stimulating a flow of credit from financial markets into microcredit programs. Guarantees are a good interim measure for microcredit institutions in the process of moving from the nonprofit sector into the commercial. These microcredit programs benefit from the assistance of donor-extended guarantees while they adjust to the discipline of financial market requirements. To ensure this process, guarantee funds must be extended after conducting an assessment of the financial performance of the microcredit institution. While the very nature of a guarantee fund means that risk is being assumed and a degree of loss accepted, no guarantee should be extended if, at the point of approval, an applicant program is not perceived on a professional basis to have the means of repaying the obligations it is undertaking.

4. Commercial Loans

Market-rate loans to microcredit programs from commercial sources will be essential for fueling the expansion of those programs that have achieved scale sufficient to reach economic viability.

5. The Potential Mix of Loans and Grants

Credit as a tool to develop a project has a cost, which must be compared to the expected yield of that project. Basic capital budgeting techniques show that for any project, the expected yield should be higher than the cost of the funds used to finance it. An entrepreneur would have little interest in developing a project if this were not the case. When the entrepreneur invests little of his/her money in the project, the funds used to finance the project consist solely of the money borrowed by the entrepreneur, so the cost of funds is only the cost of credit. Thus, the capital budgeting rule is as follows: credit can help to develop only those projects that yield more than the interest at which the credit is priced. High interest credit, therefore, only encourages entrepreneurs to develop projects that yield high profits.
Mixing credit with grants on an ad hoc basis provides a way to allow the financing of high-yielding activities other than trade. This approach is based on the fact that many potentially high-yielding income-generating activities present a low-yield because of important cash outlays that occurred at the outset of the project (Garson 1998: 5).

6. New Trends in Profit Transfer

a. Planet Finance

Jacques Attali is a Frenchman, who is perhaps best known for establishing the European Bank for Reconstruction and Development. Today, Mr. Attali is attempting to marry microfinance with the internet. There are more than 10,000 microfinance institutions worldwide, and some, most notably, the Grameen Bank, are cyber-savvy organizations; others, however, are impeded by their remote locations and a lack of funds. Mr. Attali believes that the internet can be used to promote microfinance. Hence, PlaNet Finance (planetfinance.org) was founded in 1998. The organization has a rating service, PlaNet Rating, that analyses microfinance sectors in individual countries. PlaNet Finance also offers a training service to train new entrepreneurs in basic business skills. An information service, PlaNet Library, lists 2,000 microfinance, and there is a technical support group, PlaNet Systems, which has sent computers to Benin and mobile phones to Bangladesh. There is also a mechanism for the public to make online donations to specific microcredit institutions. Presently, plans are underway to launch PlaNet Bank next year. This "bank" would raise money in the capital markets, and eventually, offer loans, guarantees, and equity capital to microfinance institutions.34

b. Donor Involvement

Several large international entities are increasingly turning their attention to the microfinance arena. Some, such as the Consultative Group to Assist the Poorest (CGAP) and the Special Unit for Microfinance (SUM) are newly spawned efforts to support the strengthening of microcredit programs. Others, like the International Labor Organization (ILO), have long been committed to social finance.

The Consultative Group to assist the Poorest (CGAP), was formally launched in June 1995. CGAP represents a multi-donor effort to address poverty through a microfinance program, with the distinct objectives to: coordinate donor micro-finance programs, improve the political environment for microfinance institutions, distill and increase the best practices in the industry, and use these lessons to deliver sustainable banking services to the poor.35

Members of the CGAP include: Canada, France, The Netherlands, the United States, the African Development Bank, the Asian Development Bank, the International Fund for Agricultural Development, the United Nations Capital Development Fund, the United Nations Development Program and the World Bank. Approximately, $200 million in programs and cash were pledged by the member donors to CGAP.

CGAP, an umbrella organization at the World Bank for microfinance, has looked into providing online training for microfinance recipients in the field, but has found that too often there is a problem with internet connectivity.

The United Nations Capital Development Facility houses the Special Unit for Microfinance (SUM), which was established by the Administrator of the United Nations Development Program in August 1997. SUM aims to bring together the growing work of the UNDP in the area of microfinance with the established credit and microfinance portfolio of the United Nations Capital Development Fund. Both the UNCDF and UNDP's MicroStart Program aim to build the capacity of microfinance institutions. Each program brings unique contributions to the joint effort by working with three types of microfinance service providers: 1) new entrants to the field; 2) organizations that work in rural areas in the poorest countries, particularly in Africa; and 3) established institutions that seek to expand their markets with new microfinance products and services.

The MicroStart Program works with a variety of institutions, including NGOs, banks, credit unions and special investment funds to develop new microfinance products and the capacity to deliver them to growing markets.

SUM's purpose is to support the growth of effective microfinance institutions that have transparent track records and solid institutional and financial performance, which enable them to reach poor clients, particularly women, on a sustainable basis. Within the UNDP, SUM strives to foster an understanding of microfinance best practices, while assisting UNDP country offices and other UN agencies to incorporate those elements into programs.

Specifically, SUM offers young and new institutions an incubator environment, which provides:

1. Technical assistance to start-up and promising institutions by contracting the services of experienced microfinance service providers.
2. Small capital grants, up to $150,000 as a complement to technical assistance for investment in fixed assets, such as computers and other information technology; to cover a percentage of operational costs; or as a complement to the organization's own loan funds, or other donors' grants, or as leverage for commercial loans.
3. Promotional assistance for microfinance innovations in rural Africa and in other difficult areas where the UNCDF operates.
4. Support for the entry of new players into the market, through the sharing of lessons learned and best practices.

Finally, the ILO has always been committed to the social dimension of finance. It directs its efforts at striking a balance between equity and efficiency; at creating level playing field for all financial market participants, and at putting disadvantaged groups back into the mainstream of economic activities. The ILO is called upon to examine and consider all international and financial policies and measures in light of social justice.

C. Who Gets the Financial Capital?

1. Approaches to Microfinancing the Small Enterprise

a. The Institutionalist versus the Welfarist Approach

The microfinance movement has come to be divided by two broad approaches regarding the best way to help the poor through access to financial services: the institutionalist approach and the welfarist approach (Woller et al. 1997: 2).

The institutionalist approach focuses on creating financial institutions to serve clients who either are not served or are under-served by the formal financial system. Emphasis lies on achieving financial self-sufficiency; breadth of outreach (meaning number of clients) takes precedence over depth of outreach (meaning the levels of poverty reached); and positive client impacts are assumed. The center of attention is the institution, and institutional success is generally gauged by the institution's progress toward achieving financial self-sufficiency. The best known examples are Bank Rakyat Indonesia (BRI) and Banco Solidario (BancoSol) in Bolivia (Woller et al. 1997: 2).

Institutionalists argue that a primary objective of microfinance is financial deepening, the creation of a separate system of "sustainable" financial intermediation for the poor. Theirs is a "financial systems" approach to microfinance, in which the future of microfinance is dominated by numerous large-scale, profit-seeking financial institutions that provide high quality financial services to large numbers of poor. Because of their insistence on financial self-sufficiency, institutionalists eschew subsidies of any kind (Woller et al. 1997: 2).

Welfarists, on the other hand, emphasize depth of outreach. Welfarists are quite explicit in their focus on immediately improving the well-being of participants. Welfarists are less interested in banking per se than in using financial services to alleviate directly the worst effects of deep poverty among participants and communities, even if some of these services require subsidies. Their objective tends to be self-employment of the poorer of the economically active poor, especially women, whose control of modest increases of income and savings is assumed to empower them to improve the conditions of life for themselves and their children. Their center of attention is the "family." The most prominent examples of welfarist institutions are the Grameen Bank in Bangladesh and its replicas elsewhere, and FINCA-style village banking programs in Latin America and, more recently, in Africa and Asia (Woller et al. 1997: 3).
Like the institutionalists, welfarists have assumed more impact than they actually have been able to document (Woller et al. 1997: 3).

b. The Income-Generation Approach versus the New Minimalist Approach

The *income-generating* approach to reducing poverty holds that the governments and donors should seek to develop income-generating activities since these are the activities that are likely to increase the revenues of the poor. The *New Minimalist* approach to the role of credit in poverty eradication holds that credit should be extended to any poor person able to repay a loan itself enough to fight poverty (Garson 1988: 3). New Minimalists think that controls on the way in which a borrower uses the money are unnecessary.

Both approaches have their own rationale. The New Minimalist approach is implicitly based on a law of large numbers: on average credit extended to the poor is likely to ultimately increase income even if some of the poor use it for immediate consumption. The desired result in terms of poverty reduction is achieved when the institutions delivering credit are made sustainable. This will happen when the number of poor borrowers serviced by the institutions is quite large. The New Minimalist approach directs its attention to the institutions delivering financial services rather than to the poor benefiting from the services of the institutions.

D. What is the Distinction between the Poor Entrepreneur and the Poor non-Entrepreneur?

There are two categories of poor: the *entrepreneurial poor* (Eps) and the *non-entrepreneurial poor* (NEPs) (Garson 1998: 4). The EPs are generally "wealthier" and more educated than the NEPs and can therefore create activities that would enable them to move closer to or above the poverty line. The NEPs are unable to do so and would need to be financially supported permanently by governments, because they lack the personal skills or because they are so destitute that they are in no position to develop any meaningful economic activity in the environment in which they live.

The concept of entrepreneurial poor allows the anti-poverty policies to move from purely direct assistance (subsidies) to mixes of direct and indirect assistance (subsidies for the NEPs and financial assistance or credit for the EPs). Naturally, governments and donors are more interested in direct assistance because it targets the causes of poverty rather than the poor themselves, making anti-poverty policies more cost-effective (Garson 1998: 4).

According to the 1981 Reserve Bank of India report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development, the poor can be classified into three categories:

1. Those who would need only credit to undertake an economic activity that would eventually lift them out of poverty;
2. Those who would need credit and a capital subsidy to undertake such an activity; and
3. Those who would remain poor, thus always requiring direct assistance through subsidies and welfare.

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E. Lessons Extracted from Part II

This portion of the paper explored the organization of microcredit institutions, specifically governance, sources of financial capital, new trends in profit transfer, and the allocation of credit. What surfaced were the tremendous complexities involved in borrower selection and loan disbursement. It is incumbent on the lending institution to determine whether it will extend loans to groups or individuals; whether it will specify how loans can be used; how much interest should be charged to cover the cost of administering the loan; the amount of savings that should be required of each loan recipient or group; whether to cater to the entrepreneurial poor or the non-entrepreneurial poor; and whether to push for the number of clients or the depth of clients served as a target of success.

Once again, the text afforded a rich range of micro- and macro-metrics that can facilitate the assessment of microcredit institutions.

1. Proportion of borrowers selected from pool of applicants.
2. Repayment rates for group versus individual borrowers.
3. Institutional breakdown of loans by their utilization and income (return on investment).
4. Repayment rates and return on investment, according to location of loan establishment.
5. Average loan size per institution.
6. Average interest rate per institution.
7. Average savings rate per institution.
8. Level of self-sufficiency
9. Proportion of microcredit institutions catering to Institutionist versus Welfarist approach.

The next section of this paper will review the micro- and macro-metrics presently employed to assess the impact of microfinance programs. It will also offer a discussion of what leading microfinance scholars contend should be included in any metrics package.
Part III: A Review of the Micro-and Macro Metrics used to Monitor and Evaluate Microcredit Programs and Institutions

"I have a great subject [statistics] to write upon, but feel keenly my literary incapacity to make it easily intelligible without sacrificing accuracy and thoroughness."

- Sir Francis Galton

Thus far, this paper has showcased microcredit as a gateway to modest prosperity for the otherwise impoverished. And yet, for all the many positive developmental outcomes that can be attributed to participation in microcredit programs, there are important methodological weaknesses in the literature documenting their impact and replication.

Over the years, those who have studied microcredit schemes have employed a wide range of measures to assess the merits of a given approach or program. The earliest measures centered on repayment rates and qualitative impact assessments. These combined to provide micro-metrics to evaluate the institution, and macro-metrics to measure the impact of the approach or program on the economies of their participants and their communities. If there was evidence that the situation was improving then the approach or program was declared a success. At the same time, programs that used an excessive proportion of their funds for administrative matters were labeled less successful than their more frugal counterparts.

By the late 1980s, there was considerable anecdotal and qualitative (largely case study) evidence to support the popular perception that microcredit was the "great equalizer." Still lacking, however, were clearly articulated regulations to evaluate institutional compliance and to provide a basis for comparisons across institutions and programs, and carefully controlled longitudinal studies of borrowers and non-borrowers.

In the early 1990s, development projects, in general, and microfinance projects, in particular, came under increasing pressure to demonstrate that returns on investments were real and sustainable.

This section of the paper will review two important works that, in turn, propose measures of institutional performance and economic impact.

A. Institutional Performance

According to the 1997 issue of the Microbanking Bulletin, the microcredit movement has traditionally linked institutional performance with sustainability as measured in terms of "self-sufficiency," or cost-recovery, the ratio of income to expenses. The lowest hurdle, "operational self-sufficiency," measures the degree to which cash-operating income covers cash expenses, excluding concepts, such as depreciation or the financial adjustments discussed above. Institutions that cannot cover these costs require periodic injections of outside funds in order to keep running. "financial self-sufficiency" is generally used to describe the ratio between operating income and total expenses, including the adjustments described earlier.

The following discussion centers on twenty-eight microfinance Institutions (MFIs) that were studied by the editors of the Microbanking Bulletin, to evaluate their levels of sustainability using a series of micro-metrics.

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1. Micro-Metrics: In Search of Institutional Sustainability

The concept of sustainability drives much of the microfinance agenda today. Many in the industry are beginning to concur that financial sustainability is a *sine qua non* for long-term breadth and depth of outreach. It has become increasingly clear that microcredit institutions subsidize their clients at the expense of their own financial health, since they seldom survive the high delinquency rates, which exist. Typically, clients view subsidized development lenders as politically motivated, and regard their loans as disguised grants.

Nonetheless, preliminary results from the *Microbanking Bulletin* indicate that the microfinance institutions examined in this edition of the *Bulletin* have financial statements that look quite strong prior to adjustments: they all exceeded 90% operational self-sufficiency (cash operating income divided by out of pocket operating expense).

a. ROA and ROE as Profitability Measures

Commercial banks do not use "self-sufficiency" to measure their overall financial performance. This cost-recovery indicator is embedded in the donor and beneficiary culture that dictates that a lack of cost-recovery means continued streams of donor funding to sustain operations. Bank owners, by contrast, are more concerned with profits in comparison with their investment. Consequently, they rely more on profitability indicators, such as return on equity, and return on assets. The former, ROE, measures profits in relation to the equity owners have invested; the latter, ROA, measures profits in relation to the size of the business.

Using unadjusted ROA and ROE to measure the profitability of the 28 participating MFI, the study showed performance results that rival those of many commercial banks. The average Return on Assets for the 28 microfinance organizations was 7.4%, compared to the 1.5-2% level, which would keep most bankers happy. The average Return on Equity was 18%, which would also be considered quite acceptable in most countries' banking sectors.

But neither operational self-sufficiency, nor unadjusted ROA or ROE reflect the effects of inflation, subsidies, and possibly unrealistic loan loss recognition. For this reason, the *Bulletin* routinely adjusts reported financial results to reflect these variations. Such adjustments put the MFI more on par with commercial financial institutions, and allow for comparisons of financial performance across MFI operating under distinct circumstances.

b. Adjusted ROA and ROE to Measure Financial Self-Sufficiency

The financial self-sufficiency ratio, which includes the effect of the adjustments, shows three of the six peer groups operating at negative levels. Likewise, for the group of 28, the adjustment process reduces average ROA of 7.4% to AROA of 1.7%. Two peer groups were particularly hard hit by the inflation adjustment. In Latin America, both village level institutions and microcredit institutions (MCIs) in lower income countries rely heavily on donated funds, so the adjustments reduced their profitability by two-thirds: ROAs of 6.6% and 18.6% fell to AROAs (adjusted ROAs) of 2.1% and 7.6% respectively. The least affected peer group was that of the microbanking institutions, whose strongly leveraged position and relatively low dependence on subsidized funds, minimized the impact of the adjustments; ROA of 3.3% dropped to AROA of 2.5%.

Overall, 21 of the 28 MFI were financially self-sufficient; they had a positive real return on assets, after all adjustments. Average performance of these 21 sustainable MFI stood at: a) Financial Self-Sufficiency of 11.7%, b) Adjusted Return on Assets of 4.5%, and c) Adjusted Return on Equity of 15%. It should be noted that a 4.5%

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39 The 28 participating MFI were grouped into 6 peer groups, based on four selection criteria: program size, income level of country, region, and lending methodology. Similarities between MFI are more pronounced in some peer groups than in others. The 6 initial peer groups are as follows: Microbanking Institutions in Middle Income Countries, Latin American Microcredit Institutions in Lower and Middle Income Countries, Latin American Microcredit Institutions in Upper Income Countries, Latin American Village-Level Institutions, Asian Village-Level Institutions, Microcredit Institutions in the Rest of World.
Return on Assets would be an extremely attractive profit for most bankers. Conversely, a 15% Return on Equity would be viewed as less stellar in comparison with commercial bank’s performance.

In any case, the 21 sustainable MFIs demonstrate that financial services for the poor can be provided in a manner consistent with the long-term exponential growth of the industry. These 21 MFIs were drawn from a variety of economic environments, institutional structures, geographical settings, lending methodologies, and, most notably, poverty levels of target groups, reaffirming the assertion by Christen, Rhyne and Vogel (1995) that financial sustainability is more likely to complement than to conflict with outreach goals.

c. Expenses in Relation to Profits

Profit is the excess of income over expenses. Thus, a given level of profit can be produced at very different levels of income and expense. The findings generated from the 28 participating MFIs reveals significant differences among peer groups in this respect. The peer group that shows the greatest profits generated those profits by charging a nominal interest rate well above its costs of capital. Latin American MCI in lower income countries achieved a 7.6% AROA, in spite of relatively high administrative expenses (24%), by obtaining a yield of 65% on its loan portfolio. The profit margin averaged 20% of operating income. The second highest AROA (2.5%), achieved by the group of commercial MBIs resulted from a below-average-administrative cost structure (16%), combined with a slightly lower than average yield (40%), and a slightly higher than average profit margin (7%) on total operating income. The poorer performing peer groups usually had either relatively low yields or their portfolios or relatively high operating costs, but not both.

Yield data, interest income divided by average loan portfolio, shows that institutions in Latin America charge average nominal rates of interest that are twice as high (53%) as those charged by MFIs in the rest of the world (27%). Latin American MFIs generate more than twice as much income (42%) as institutions in Asia (21%) and the rest of the world (15%). When distilling asset utilization rate from profits and various expenses, it becomes evident that Latin American MFIs are not significantly more profitable than Asian institutions. Instead, it is clear that most of Latin America’s higher interest yield is consumed by higher operating costs. Latin American operating costs average 39%, compared to 19% for Asia and 15% for the rest of the world.

Many Latin American countries have experienced long, severe and repeated bouts of inflation. As a result, the general population has become accustomed to paying high rates of interest on all types of loans. Unfortunately, the ability to charge high interest rates may reduce the incentive to pare costs through rigorous efficiency measures. MFIs may feel that it is easier to reach self-sufficiency through high interest rates than through high productivity. Client behavior would seem to reinforce this perception, since high interest rates rarely dissuade micro-clients from taking loans. On the other hand, interest rates are clearly the quickest path to self-sufficiency, and many MFIs in other parts of the world could enhance their long-term sustainability and outreach by increasing their interest yields.

d. Average Loan Size

Figure 3 shows the average loan size for the 28 MFIs studied, according to the income level of the country in which each operates. Although average loan balance increases as the income level of the country increases, this average loan balance as a proportion of GNP per capita decreases, at a far more rapid rate. Similarly, the larger MFIs tend to be concentrated in the lower income countries where their client group is more representative of the general population, while the smaller MFIs are likely to be in higher income countries, where they serve a more economically viable segment of the population.
Figure 3: Average Loan Balance with Income Criteria

<table>
<thead>
<tr>
<th>N</th>
<th>AVG LOAN BALANCE</th>
<th>GNP PER CAPITA</th>
<th>AVG LOAN BALANCE / GNP PER CAPITA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(US$)</td>
<td>(US$)</td>
<td>(%)</td>
</tr>
<tr>
<td>Lower Income</td>
<td>5 437</td>
<td>475</td>
<td>75</td>
</tr>
<tr>
<td>Middle Income</td>
<td>19 458</td>
<td>1,309</td>
<td>38</td>
</tr>
<tr>
<td>Upper Income</td>
<td>4 640</td>
<td>4,918</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Microbanking Bulletin, 1997

e. Operating Efficiency and Productivity

Salaries usually compose about two thirds of an MFI's total administrative expense. The financial productivity of staff results from a combination of three productivity indicators: 1) the number of active clients each staff member "manages", 2) the average salary of each staff member, and 3) the average loan balance per client. As the number of active clients per staff member decreases (lower productivity), the average loan balance must increase, or the average staff salary must decrease, in order to maintain the same level of productivity. The authors of the study found it instructive to express average loan balances and average staff salaries in relation to GNP per capita, to allow for a more meaningful cross-country comparison, without obscuring the impact of these elements on financial productivity.

The interplay among these productivity variables can be illustrated by comparing the composition of the salary burden for two of the peer groups, Asian MCIs and MCIs in the rest of the world. Both have a salary burden of 9% of average total assets. The Asian MCIs have lower average loan balances, but compensate with a lower average staff salary and a somewhat higher number of clients per employee. MCIs in the rest of the world have higher staff salaries and fewer clients per employee, but compensate with higher average loan balances. This composition is consistent with the "poverty" focus and small loan size of the Asian MCIs. In order to deliver these tiny loans, they have sought out staff who will accept lower wages while carrying somewhat higher client loads.

On the other end of the spectrum, Latin American MCIs in upper income countries have a high salary burden (28% of assets) in spite of the fact that they pay salaries that are relatively low in their local context. What is problematic, according to the authors, is that their loan balances are small, only 16% of GNP per capita (compared to 23% in the Asian MCIs). Further, they have relatively few clients (77) per employee. As indicated earlier, these MFIs have fewer clients to choose from in any given area because their target group represents a relatively smaller sub-sector of the overall population than the target groups of MFIs in poorer countries.

f. Liability Structure

Financial intermediaries use capital inflows in the form of savings and make them available to borrowers. They obtain a license to do so from a government, which usually requires their "owners" to put their own resources at stake in the form of equity. This equity safeguards depositors by providing a cushion, which is a first line of defense to absorb operating losses, which could imperil depositors' funds. Thus, the business of financial intermediation consists of leveraging owners' equity investment by obtaining further funds from the general public to finance the intermediary's lending operations. Given the limited willingness of donors and governments to grant equity for microfinance, MFIs who aim at national impact must eventually behave like banks and capture commercial liabilities, either from banks and other large investors, or from savings of their target clientele. Many MFIs in the study have begun this process of leveraging their equity with liabilities from outside sources.
Several lessons can be extracted from the authors’ work. First, financial sustainability is what will relieve MFIs of donor dependence, but not unless it is calculated in its adjusted form. Hence, although Return on Assets and Return on Equity constitute important markers of profitability, if they are not adjusted for inflation, they can grossly overestimate the institutions profit. Therefore, financial self-sufficiency is best measured by the financial self-sufficiency ratio.

Second, in addition to being overshadowed by interest rates, profits margins are also threatened by large administrative expenses, which are best carefully controlled or mitigated through the collection of nominal interest rates above the cost of capital.

Third, profits must be protected through a cautious balance of operating efficiency and productivity. Specifically, salaries must be kept at bay, the client load must be greater, or the loan balance must be increased.

Finally, microcredit institutions should adopt a behavior more akin to commercial banks and seek a higher level of equity to provide a safeguard for borrowers.

B. Economic Impact

According to the proceedings from the 1997 Microcredit Summit, there is growing evidence to support the claim that access to credit is helping poor people emerge from a state of poverty. A Catholic Relief Services evaluation, carried out in 1997, reports that 97% of the members of two established banks in Thailand found their income had increased between US$40 to US$200 per annum. Similarly, interviews with 380 FINCA village bank borrowers in El Salvador revealed that weekly income increases averaged 145%40.

An earlier study of the Grameen Bank done by the World Bank in 1995 compared wage levels in villages served by the Bank with a control group of villages that lacked a Grameen center. The findings showed a significantly higher wage level in the Bank villages, suggesting that economic activity fueled by Grameen credit had tightened the labor market, resulting in elevated income levels. The researchers also noted an increase in savings levels in the communities where the Grameen Bank had installed a center, over levels recorded in years prior to the establishment of the center41.

In addition to impacting positively on household income, studies have credited microfinance with playing an important role in increasing access to basic social services and thereby enhancing the well-being of very poor people. A poor woman who is able to access microcredit can also gain increased access to primary health care, safe water and sanitation for her family, and family planning information and services. Much of this increased access stems from the success of the solidarity groups. The solidarity groups, which form the backbone of many microfinance programs, offer a forum for learning about and discussing issues related to health care and sanitation, family planning, running a business, ending marriage dowries, and a host of other crucial topics.

Since income is directly linked to education, one would hope that microenterprise development could encourage higher levels of school enrollment amongst the poor. Indeed, studies have demonstrated that borrowers are more likely to enroll their children, particularly girls, in school. In a UNICEF-supported microcredit program in Vietnam, it was found that 97% of the daughters of the borrowers attended school, compared with only 73% of non-borrowers. In a program in Egypt, women with working children were given access to credit once their children were enrolled in school.

Despite the growing body of evidence to support the claim that access to credit is helping poor people emerge from a state of poverty, there remains the question about the quality and regularity with which the data are collected.

In his recent work, Jonathan Murdoch\(^{42}\) states that "anecdotes abound about the dramatic social and economic impacts of microfinance, but there have been few impact evaluations with carefully chosen treatment and control groups (Journal of Economic Literature 1572)." He further contends that those studies that have been undertaken yield a mixed bag of results.

1. **Macro-Metrics: In Search of Development's Holy Grail**

Murdoch's research looks at five microcredit programs that extend credit to groups or individuals; that employ the village banking model or a commercial banking format; that depend on group collateral to varying degrees; and that charge a range of interest rates to cover transaction costs. Together, the five examples represent the diversity of approaches used to lend to low-income households.

This discussion will address only one component of Murdoch's work, that which centers on the social and economic impacts of microcredit.

   a. **Household benefits of Microcredit**

   Murdoch asserts that micro-enterprise activities mounted by a self-employed borrower can have multiple affects on the welfare of the household members, which are manifested in a number of ways.

   First, there should be an income effect, which drives an increase in household consumption levels, which might be evidenced by an increase in provisions, education expenditures, health care expenditures (unless all health care is free), and leisure pursuits.

   Second, household savings accounts should be growing as a result of increased income generation, particularly if the MFI has in place a savings mechanism that is proportional to income.

   b. **Community benefits of Microcredit**

   Murdoch's work reveals some of the extended benefits microcredit can have on a community, once a significant number of members have become borrowers.

   First, fertility rates, at the member level, should show a decline over time, since increased female employment has been shown to reduce fertility. This is, in part, due to the increase in opportunity costs with a greater number of children.

   Second, there should be a higher enrollment in school for the children of members, and this includes female children, who in some societies are denied schooling in the face of destitution.

   Third, there should be a higher rate of employment amongst those of employable age.

   Such impact measures get to the core of all development efforts: improve nutrition; educate more children; increase access to health care, and the ability to purchase medicine; reduce fertility rates; empower women; and elevate the number of households that can generate an income level beyond subsistence (i.e. where savings is possible). However, evaluative research has yet to integrate itself into the protocol of microcredit institutions. The principal reason being that data collection is both costly and distracting. Most programs prefer to modify their strategies and tactics through trial and error. Once the mechanisms work reasonably well, standardization and replication can be done, with minor adjustments made only peripherally.

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Murdoch is right on when he suggests that a portion of donor money would be well spent systematically evaluating the impact of microcredit programs; "by returning to the early commitments to experimentation, innovation and evaluation (Journal of Economic Literature 1572)."

At the same time, Murdoch warns against undertaking research that does not account for common flaws, specifically those relating to: 1) concomitant factors that may have a greater weight than credit extension in the observed outcomes, and 2) systematic sample selection bias, resulting in overly favorable outcomes.

C. Lessons Extracted from Part III

Granting small loans to help poor people start businesses has become a popular poverty fighting tool, but as the works of the Microbanking Bulletin and Jonathan Murdoch have demonstrated, the prospects for institutional sustainability and economic impact remain embellished by the development spectators. It is imperative that a package of micro- and macro-metrics be formulated that can be systematically collected by microcredit institutions and programs.

The final section of this paper will propose a simple package of metrics, some of which are proxy measures of indicators, that would be prohibitively costly to collect.
Part IV: Working Capital as a Living Case Study

"My way is so simple to feel, so easy to apply, that only a few people will feel it or apply it."

- Lao Tzu, The Way of Life

A. A Beginning to the End

The first part of this paper underscored the potential impact of microcredit on macro-measures, such as: poverty alleviation; urban migration; women and children's health status, including HIV transmission; and women's empowerment. Similarly, Part I hinted at several micro-metrics that are purported to be strengthened through microfinance, including: higher savings rates, returns on equity and assets, new business development, enhanced group cohesion, increased household income, and elevated rates of local employment.

The second part of this paper explored the organization of microcredit institutions, specifically governance, sources of financial capital, new trends in profit transfer, and the allocation of credit. What surfaced were the tremendous complexities involved in borrower selection and loan disbursement. Part II revealed some of the key functions of the lending institutions, such as determining: whether it will extend loans to groups or individuals; whether it will specify how loans can be used; how much interest should be charged to cover the cost of administering the loan; the amount of savings that should be required of each loan recipient or group; whether to cater to the entrepreneurial poor or the non-entrepreneurial poor; and whether to push for the number of clients or the depth of clients served as a target of success.

Finally, the third part of this paper reviewed key studies by the Microbanking Bulletin and Jonathan Murdoch. Their research demonstrated that the prospects for institutional sustainability and economic impact remain embellished by the development spectators. In their view, the micro-metrics are not properly adjusted to account for inflation, and interest rates are overused in lieu of reducing operating costs. Macro-metrics are equally misleading, since they are subject to selection and sample biases, the data are not collected routinely, and their interpretation does not always account for confounding factors.

At this juncture, it is clear that a package of micro- and macro-metrics needs to be formulated that can be systematically collected by microcredit institutions and programs.

The final section of this paper will use a living case study to propose a simple package of metrics, some of which are proxy measures of indicators that would be prohibitively costly to collect.

B. A Review of the Menu of Metrics

To begin aggregating and dismantling the many metrics presented thus far in this paper, a table (refer to Figure 4) has been constructed showing all of the micro- and macro-metrics alluded to, according to section of the paper in which they were presented.

The metrics contained in the table below illustrate the range of indicators that are used by microfinance institutions and programs to assess short-term performance and longer-term impact. Some of the indicators are too expensive to collect routinely (i.e. contraceptive prevalence rates, institutionist vs. welfarist philosophies) and fall outside the direct influence of increased household income (i.e. HIV infection, elevated education levels, fertility rates). Microfinance institutions and organizations would be far better off employing a package of metrics that can demonstrate direct association between the activities of the entity and the outcomes.
Figure 4: An Aggregation of the Micro- and Macro-Metrics Presented in Parts I-III

<table>
<thead>
<tr>
<th>Part I</th>
<th>Part II</th>
<th>Part III</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro</strong></td>
<td><strong>Part II</strong></td>
<td><strong>Part III</strong></td>
</tr>
</tbody>
</table>
| - Utility of Lending Groups to monitor or enforce contracts and help screen good borrowers and strong business ideas.  
  - Relation of interest rates charged by microfinance institutions to those charged by commercial banks.  
  - Extent to which microfinance organizations are conveniently located to their clients, and the simplicity of their transaction processes.  
  - Number of annual start-ups and their solvency at specific time intervals. | - Proportion of borrowers selected from pool of applicants.  
  - Repayment rates for group versus individual borrowers.  
  - Institutional breakdown of loans by their utilization and income (return on investment).  
  - Repayment rates and return on investment according to location of loan establishment.  
  - Average loan size per institution.  
  - Average interest rate per institution.  
  - Average savings rate per institution.  
  - Level of self-sufficiency.  
  - Proportion of microcredit institutions catering to Institutionist versus Welfarist approach. | - Average adjusted return on investment per institution.  
  - Average adjusted return on equity per institution.  
  - Average profit margin per institution.  
  - Average loan size per institution.  
  - Number of active clients each staff member manages.  
  - Average salary per staff member.  
  - Average loan balance per customer.  
  - Proportion of capital inflows that take form of equity. |
| **Macro** | | |
| - Increase in the number of employees hired by a microentrepreneur.  
  - Increase in the Loan Group's savings rate over time.  
  - Availability of information, through the microcredit program, about such topics as health, legal rights, sanitation, and other relevant concerns.  
  - Proportion of income used, over time, on health care services, provisions, hygiene, and children's schooling.  
  - Rate of fertility as related to increased household income through a microenterprise endeavor.  
  - Rate of HIV infection in microcredit program areas.  
  - Rate of contraceptive prevalence amongst members of microcredit institutions. | | - Proportion of income used, over time, on health care services, provisions, hygiene, and children's schooling.  
  - Increase in the Loan Group's savings rate over time.  
  - Rate of fertility as related to increased household income through a microenterprise endeavor.  
  - Rate of school enrollment over time of members' children.  
  - Rate of employment in program community over time. |

C. Using the Balanced Scorecard to Package Metrics

As was previously mentioned, the purpose of microfinance is to use financial means to help very poor people start or expand businesses so that they might elevate their standard of living. To do this, microfinance organizations employ a number of different strategies that allow them to increase the probability of a successful profit transfer, while reducing the possibility of loan defaults. In assessing the performance and impact of microfinance, it is important to collect a discrete bundle of both micro- and macro-metrics.

The Balanced Score Card model is a convenient way to categorize the metrics. The Balanced Score Card was developed by Robert Kaplan and David Norton of the Harvard Business School, and translates an organization’s mission and strategy into a package of performance measures that results in a framework for a strategic
measurement and management system\(^3\). The Balanced Scorecard measures organizational performance across four perspectives: financial, customers, internal business practices and learning and growth.

**Figure 5: The Balanced Scorecard Model**

1. **Micro-metrics**

For purposes of this exercise, we will assume that micro-metrics refer to specific measures collected by the microfinancing organization to:

**Financial** - Assess the flow of capital: who received money, how much was loaned, and what portion of the loan is still outstanding.

**Internal Business Process** – Assess the processes and procedures used to evaluate projects, provide business training, extend loans, collect payments, offer technical assistance and follow-up on defaults.

**Learning and Growth** – Assess the collection, documentation and application of lessons learned.

**Customer** – Assess the profits of the customer’s business and its growth.

2. **Macro-metrics**

In the context of this paper, macro-metrics will refer to gross measures of impact, such as:

**Financial** - Assess how the inflow of capital has increased the local economy, the savings rate, and the increase in employment.

**Internal Business Process** – Assess the impact the various processes and procedures involved in issuing credit have had on creating a trickle down effect (i.e. old borrowers helping new borrowers to access funding).

**Learning and Growth** – Assess the collection, documentation and application of lessons learned.

**Customer** – Assess the impact of profits and/or wage increases on the community.

The scope of this paper is such that it is not possible to test this Balanced Scorecard across a reasonable sample of microfinance organizations, rather the model will be applied to a single microfinance organization based here in Boston, Working Capital. Working Capital offers an interesting case study. Like its international counterpart microcredit institutions, it extends credit to the poor, and uses the group loan mechanism to ensure repayments and provide support to borrowers. Furthermore, like the majority of international microlending programs, Working Capital has yet to achieve full financial self-sufficiency.

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D. A Profile: Working Capital

The 1990s have witnessed dramatic economic change in the United States. From corporate downsizing to job relocation outside of the U.S., from the growth of the service sector to the rise in temporary workers, all have had a major effect on American workers.

At the same time, and possibly as a result of these structural changes, the number of self-employed persons and the number of micro-businesses have increased considerably during the past 30 years. Since 1969, the number of self-employed individuals has increased from 6.9% of the non-farm labor force to 10.7% in 1994. According to the Self-Employment Learning Project of the Aspen Institute, "small businesses run by self-employed individuals, are an important option for a segment of the unemployed and working poor population today."

Sylvia Dillard wasn't exactly a banker's dream customer. The only collateral the 34-year-old mother had was an entrepreneurial spirit. And spirit is not something a bank tends to count on; after all, it's impossible to repossess. Besides, the Bostonian raising 3 kids on her own is the first to admit that her personal credit was "shot to hell." After a brief stint of AFDC (Aid to Families with Dependent Children), after years of working over and under the table, Dillard says, "I didn't see any light at the end of the tunnel." But the independent woman had a dream of starting her own business. And, she had the good fortune of finding Working Capital. With a loan of $500 to purchase a vacuum cleaner, supplies and business cards, she was promoted from welfare recipient to founder and President of her own cleaning company, MAAD: Mothers Against All Dirt.

In conjunction with these economic shifts, in the 1990s the United States saw the rise of new ways to assist self-employed entrepreneurs and the smallest business entities, through programs called micro-enterprise development projects. Such programs, which now number around 500, offer services to self-employed and small-business entrepreneurs, ranging from credit, to technical assistance, to individual and peer support. Many programs limit their services to the extension of credit and target their loan services to low-income individuals who want start-up or expansion capital.

Working Capital offers a more complete bundle of services, providing everything from low-interest credit and technical assistance, to peer-support and networking opportunities for their members.

Working Capital, which was established in 1990, is one of the early microfinance programs in the U.S. — testimony to the newness of the field. Since its inception, Working Capital has become one of the largest microfinance programs in the U.S. through its program of business training, group support and credit, and through its peer-lending groups, which bring together member entrepreneurs to support one another and to guarantee each other's loans.

Working Capital firmly believes that its program of credit and technical assistance, combined with its philosophy of delegating authority to small groups of individual borrowers, gives individuals access to the resources they need through a program designed to help them help themselves. Working Capital’s commitment to taking a holistic approach to strengthening the business skills and opportunities of its customers suggests that it is an organization seeking Total Customer Solutions.

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45 Working Capital “Where have we Been, Where are we Going.” Internal Document.
E. Framework for Analysis: The Anatomy of Working Capital’s Value Chain

1. Mission

The mission of Working Capital is to provide customers who live and work in hard-pressed urban and rural communities with the credit, business training and education, and networking opportunities that they need to turn their work into thriving businesses. Working Capital offers its customers a path to business success.

As a young man living in the Dominican Republic, Adolfo Faulkner was sent by his parents to learn carpentry from a local craftsman. “In those days, we were not allowed to hang around the streets. My parents wanted me to learn a trade,” says Adolfo, now 63, from his storefront workshop. In 1993, Adolfo moved to Lawrence, Mass., a city plagued with a 12.7% unemployment rate, and a per capita income of $9,586. Here Adolfo used his skills as a wood craftsman to build furniture in his brother’s basement to sell at a Lawrence flea market.

While selling one week-end, he met a Working Capital representative who introduced him to Working Capital’s microloan and training services, and encouraged him to apply for funding. After becoming a member of the Business Loan Group, Adolfo received $500 that he used to rent a commercial space to cut, assemble, and sell his products. Five years and 3 loans later, Adolfo has a thriving enterprise that produces customized kitchen cabinets and repairs wooden furniture. According to Adolfo, “Working Capital has allowed me to become a businessman. Before I had nothing.”

Thus, the mission statement provides more than a business mantra; it is the modus operandi of both the Working Capital organization and its customers.

2. Source of Funding

Working Capital receives donations from corporations, government agencies, foundations and individual donors. As of the close of the 1998 fiscal year, Working Capital had received $547,126 in grants, and another $8,000 in donations. Additional revenue was earned through service fees, contracts, training, and interest, totaling nearly one million dollars in gross support and revenue for the year (net was around $650,000).

Working Capital has two destinations for its funding streams: 1) the Loan Fund, and 2) the Operations Fund.

The Loan Fund, which stands at about $2 million, receives cash inflows from the Ford Foundation, the Community Development Finance Institute, the Calvert Foundation, and Episcopalian Fund, and the MacArthur Foundation, amongst others. These funds are loaned to qualified customers at an interest rate of about 3%.
The Operations Fund, which finances Working Capital’s activities, draws income from grants, donations, service fees, contracts, training programs, and interest to pay is operating expenses, which run at about $800,000/year (Working Capital Annual Report 1998).

<table>
<thead>
<tr>
<th>Figure 7: Statement of Activities for the Year Ended September 30, 1998</th>
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<tbody>
<tr>
<td>Revenue and Expenses</td>
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<tr>
<td><strong>Support and Revenue Support</strong></td>
</tr>
<tr>
<td>Grants</td>
</tr>
<tr>
<td>Donations</td>
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<tr>
<td><strong>Revenue</strong></td>
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<tr>
<td>Service Fees</td>
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<tr>
<td>Contracts</td>
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<tr>
<td>Training</td>
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<tr>
<td>Interest</td>
</tr>
<tr>
<td><strong>Total Support and Revenue</strong></td>
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<tr>
<td><strong>Expenses</strong></td>
</tr>
<tr>
<td>Program Expense</td>
</tr>
<tr>
<td>Fundraising</td>
</tr>
<tr>
<td>General and Administrative</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
</tr>
<tr>
<td>Change in Net Assets</td>
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<tr>
<td>Net Assets Beg./Year</td>
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<tr>
<td>Net Assets End/Year</td>
</tr>
</tbody>
</table>

Working Capital’s outstanding track record on loan repayments (92-98%) and community development has resulted in regular financial commitments from the various donors, foundations, organizations, and individuals who contribute to Working Capital’s fund base.

Since its inception, Working Capital has assisted 2,407 customers and 1,425 borrowers, through the extension of 2,777 loans, totaling $2,959,150. Presently there are about 1,880 active members in over 350 loan groups. The aggregate principal amount of all loans disbursed through December 31, 1998 is over $3 million. The average loan size is $1,098, and the average loan term is 9.24 months.

3. Development and Assessment of Projects

The project model starts with the identification of individuals in a poor community who have some business savvy and little funding for a start up, or have an ongoing business but little extra income for expansion. These individuals are sought out by Working Capital affiliates or staff from the Community Development Corporation. Soon after a group of interested individuals is identified, they are invited to a series of sessions in which they receive information about Working Capital, and training in conducting a cash flow analysis, and drafting and reviewing a business plan.

At the close of the training, the members can decide with whom they wish to form a group. The newly established group formulates a vision and a plan for their group, chooses a name, establishes by-laws, and elects officers. Working Capital provides a loan application and materials about procedures, but is not involved in the decision-making process; rather, the loan groups themselves are responsible for reviewing the loans. The loan groups review each loan proposal against the same criteria, which include aspects about 1) the character of the applicant, 2) the success-ability (feasibility + viability) of the business idea, and 3) the soundness of the contingency plan. The entire review process can be completed in as little as an hour, and, once the loan group’s approval form is signed and submitted to Working Capital, a loan check is cut and sent within days.
The delegation of this activity is in keeping with Working Capital’s goals of instilling self-sufficiency and accountability.

The Working Capital peer-lending model is based on the most successful micro-lending programs in the world, including the Grameen Bank in Bangladesh and the FINCA program in Central America. Central to these programs is the establishment of peer lending groups to review loan applications, and advise group members on basic business practices.

In summary, loan groups form the foundation of the Working Capital program, and are essential to the success of both the members and the program overall. Active participation in loan groups provides the necessary support micro-business owners require for succeeding at their business and with their loans.

4. Project Support and Implementation

At Working Capital, all business and lending decisions are in the hands of the customers, or loan groups. This lending mechanism not only empowers members, it also serves to reduce the costs of lending, since peer pressure is severe, and a default on a payment freezes future loans for the entire loan group. Working Capital loans range from an initial $500 to as much as $20,000. Members also receive Working Capital’s business curriculum, a series of training materials and exercises that cover essential components of business management.

Each “Auntie’s Angel” that Deborah Ward has created over the past four years inside her home in Cambridge has been done with the skill and craftsman ship of a fine artist. But one thing Ward did not have was the business know-how to sell more of the multi-colored, fabric-covered dolls. Then she heard about Working Capital, Inc. With a $500 loan from the non-profit agency, she has dramatically increased the number of angels she can produce for sale. The loan program gave her access to shops and tips on how to run her part-time business more successfully, and put her in a peer-support group of fellow loan recipients.

In addition to training materials, members of the Working Capital community are the beneficiaries of many strategic alliances. These alliances are essential to the success of Working Capital. Remarkably, they are precisely what many of the other international microcredit institutions featured throughout this paper lack, causing for increased operational expenses to provide these services in-house, rather than on a pro bono or contract basis.

5. Strategic Alliances

a. Center for Women and Enterprise

The Center for Women and Enterprise (CWE) is a not-for-profit educational organization providing comprehensive business assistance, networking opportunities and resources to women starting and or growing their businesses. Although CWE’s programs and services are open to men, as well as women, CWE makes a special effort to target low to moderate-income women, especially in the inner city. CWE works with aspiring, emerging and accomplished women entrepreneurs; 60% of its clients are in the start-up stages and 40% are seeking to expand their existing businesses.

Because CWE does not offer funding to its training participants, it provides a source of potential customers for Working Capital. Following each training session, a staff member from Working Capital gives an orientation program to all of the participants, detailing the microfinance and technical assistance opportunities available through Working Capital. Working Capital’s relationship with CWE has evolved into a wonderful synergy, with Working Capital being able to draw on business savvy individuals for its microfinance program; and CWE being able to assure participants that there are available sources of low-interest financing.

46 http://www.cweboston.org
b. The Enterprise Alliance Program

The Enterprise Alliance Program was developed by Working Capital in response to customer demand for larger and more flexible loans and greater networking opportunities. Through the Enterprise Alliance, Working Capital partners with existing business, social, or faith-based organizations to provide loan capital, business education and training, and networking opportunities to their members, without the time, expense and effort of group formation on Working Capital's part. The Enterprise Alliance strengthens the partner organization by allowing it to offer its members credit and business training not otherwise available. Loans can range from $2,000 to $20,000.

c. Bank of Boston

The Bank of Boston developed a business education curriculum that includes everything from simple financial and marketing concepts to comprehensive planning and analysis, to creating an innovative business plan and prepare group members for a bank loan search. Such training is available to entrepreneurs wishing to develop further their business acumen, and is offered free of charge to Working Capital customers, who desire to seek larger loans from commercial lenders.

d. Legal Links

Testa, Hurwitz & Thibeault, LLP initiated the Legal Links Program. The relationship began in 1997, when some of the firm's lawyers approached Working Capital with the idea of providing entrepreneurs with a basic understanding of how to operate and grow a business within the legal framework of Massachusetts.

The law firm offers monthly legal clinics, free of charge, to new and continuing loan recipients. Customers are instructed to register for the clinic and to bring their business plans with them for legal review.

6. Ongoing Technical Assistance and Networking Opportunities

Once the Working Capital customer receives their loan, they are provided with regular technical assistance and ample networking opportunities. Working Capital offers some technical assistance, but plays a greater role in matching customers or loan groups with local experts, who provide business counseling free of charge on a scheduled basis. Additionally, Working Capital works with the local Community Development Corporation to organize networking events around trade shows, marketing seminars, and business openings. Often Working Capital customers attend these events in their loan groups.

As is evident, Working Capital attempts to add some measure of value to its customers throughout the life of the loan...and, in some cases, beyond. Below is a summery depiction of Working Capital's value chain.

![Figure 8: Working Capital’s Value Chain](image)

What we are really talking about here is “profit transfer,” that is, we are examining the phenomenon whereby one body transfers its excess cash flow to an intermediary body (Working Capital) who apportions small amounts to qualified customers, so that they might, in turn, generate their own profits. But how is this transaction tracked? How is it evaluated?

As was mentioned previously, when assessing the impact of microfinance, it is important to examine both micro- and macro-metrics, or measures of impact.
F. The Metrics of Profit Transfer

a. Micro-metrics

Again, we will assume that micro-metrics refer to specific measures collected by the micro-financing organization to:

Financial - Assess the flow of capital: who received money, how much was loaned, and what portion of the loan is still outstanding.

The information pertaining to who received money, the amount loaned, and the amount outstanding is closely tracked by Working Capital. Each quarter data is collected regarding the number of outstanding loans, the amount of principal outstanding, the percentage of group members with loans, the number of loans 90 days overdue, and the dollar value of loans write-offs. The information does not disaggregate the loan recipient below city level, and does not break-out default figures by type of business or by demographic characteristics of loan recipient, all of which would allow loan officers to avert high risk geographic locations, business endeavors, and borrower profiles.

Internal Business Process – Assess the processes and procedures used to evaluate projects, provide business training, extend loans, collect payments, offer technical assistance and follow-up on defaults.

In regard to internal business processes, Working Capital tracks the hours Working Capital staff devote to the specific activities of: working at Working Capital, conducting outreach, serving in training groups, and undertaking other activities. However, Working Capital does not track the number of projects accepted for funding out of those that apply for funding - an important metric when looking for patterns of success.

Learning and Growth – Assess the collection, documentation and application of lessons learned.

According to Jeffrey Ashe, Working Capital has learned one important lesson as it has watched its default rate increase from 3% in the early and mid-nineties, to 8% later on in the decade. Jeffrey feels that this decrease in payments is due to the glut of low-interest credit available, forcing Working Capital to extend credit to highly risky individuals. In recent years, the causes of default have been traced to imprisonment and murders. To deal with this, Working Capital will design and institute a better screening program.

Customer – Assess the profits of the customer’s business and its growth.

Working Capital compiles the following aggregate data to reflect the impact Working Capital has had on an average customer’s business after a period of 16-months:

- 57% increase in sales, form $27,500 per year to $43,200
- 73% increase in profits, from $10,440 per year to $18,000
- 38% increase in the owner’s draw, from 4,800 per year to $6,000
- 40% increase in the number of customers, 100 to 140 per month
- 20% of the businesses generated one additional full-or part-time job.

b. Macro-metrics

Once again, in the context of this paper, macro-metrics will refer to gross measures of impact. The data cited in this section is drawn from a study done by Denise Anthony of the University of Connecticut in which she examined 361 past and present Working Capital customers (members)47.

Financial - Assess how the inflow of capital has increased the local economy, the savings rate, and the increase in employment.

As in other small businesses, hours worked in the business, and the amount of personal investment, have a strong impact on the businesses' success. However, after controlling for both business characteristics\(^48\) and personal characteristics\(^49\), the study revealed that being an active member of Working Capital, and the number of subsequent loans received from Working Capital, have a significant impact on business sales.

There was no data available concerning any other metrics prescribed above; however, there was proxy data concerning employment levels:

- The number of businesses registered with the state of federal government increased by one-fifth (from 59% to 72%) since the owners joined a Working Capital loan group. Overall, this translates into approximately 280 newly registered, tax-paying businesses.

**Internal Business Process** – Assess the impact the various processes and procedures involved in issuing credit have had on creating a trickle down effect (i.e. old borrowers helping new borrowers to access funding).

The Study found that there is in fact a good deal of borrower cooperation:

- 80% of those interviewed have referred customers to other loan group members, while 70% report receiving referrals to their business.
- Nearly half of the active group members have cooperated with another group member on a business activity (i.e. joint advertising, co-purchasing a piece of equipment).
- Over half of the active members have made business contacts with Working Capital members from other borrowing groups.

**Learning and Growth** – Assess the collection, documentation and application of lessons learned.

The clear lesson learned through the Anthony study is that it is important to keep Working Capital members active; they tend to have better repayment records, improved profits, increased sales and hours worked.

**Customer** – Assess the impact of profits and/or wage increases on the community.

According to the Anthony study, Working Capital had the following impact on the customer:

- Profits increased by an average of 68%, from an average of $870 per month before involvement in Working Capital to over $1,500 per month after joining a loan group.
- Over half of those participating in a Working Capital loan group for 3 or more years increased their profits, compared with 39% of 1-2 year participants, and 36% for those participating for a single year.
- Active Working Capital members devote an average of 38 hours per week to their businesses; non-active members devote an average of 31 hours. Moreover, the study demonstrated that an important result of Working Capital’s program is that it enables members to make positive changes in their lives, not only business and economic changes, but personal ones as well.

Findings from the study indicate that Working Capital customers experience an increase in self-esteem and in self-efficacy. They are better at confronting problems and feel empowered to take on issues in their communities.

Below are some illustrative findings:

- 44% of active members of Working Capital reported that they feel more confident than they did before joining.
- Low-income individuals (those with earnings at or below 125% of the poverty line) report the greatest increase in confidence (51%) since becoming a member of Working Capital, compared to those with higher earnings.
- Minority members (55% women, 65% men) said they feel more confident about personal, community and economic aspects of their lives, compared to lower levels of white members.

\(^{48}\) Years in business, hours worked in the business, location of business, business assets and debt, and type of business.

\(^{49}\) Owner’s age, employment status, education, household income, and personal assets and debt.
Finally, it is important to note that the impact of Working Capital’s program goes beyond the business and the household and into the community. Results from the Anthony study found that active minority members were the most likely to be active in at least one community group. Overall, 15% of those interviewed said they had become more involved in local business groups.

G. Summary and Recommendations

Microcredit programs extend small loans to poor people for self-employment projects that generate income, allowing them to care for themselves and their families. In most cases, microfinance programs offer a combination of services and resources to their customers, in addition to credit for self-employment. This is the hallmark of Working Capital – the degree of value added to the loan process – which offers training, networking, and peer support, as part of its routine package of services.

Micro-credit is a powerful anti-poverty tool that has demonstrated relevance to people on six continents and in nearly every country.

At the same time, the data used to assess the impact of microfinanced projects are weak, non-standardized and largely survey-based, rather than systematically and routinely collected. It would be advisable for entities like Working Capital to employ the Balanced Scorecard model to measure the impact of their programs.

Below is a revised version of the model, which takes into account the data available and that which might be feasible to collect.

<table>
<thead>
<tr>
<th>MICRO-METRICS</th>
<th>MACRO-METRICS</th>
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<tbody>
<tr>
<td><strong>Financial</strong></td>
<td><strong>Financial</strong></td>
</tr>
<tr>
<td>Amount of loan and % outstanding, according to:</td>
<td>% change in no. of registered companies</td>
</tr>
<tr>
<td>♦ Name and age of borrower</td>
<td>♦ % change in customers on welfare/below poverty line</td>
</tr>
<tr>
<td>♦ Type of business and location</td>
<td>♦ % change in customers’ savings rate</td>
</tr>
<tr>
<td>♦ No. of previous loans</td>
<td>Figures in aggregate should be collected for:</td>
</tr>
<tr>
<td>♦ Duration of business in operation</td>
<td>♦ Adjusted Return on Equity</td>
</tr>
<tr>
<td>And:</td>
<td>♦ Adjusted Return on Assets</td>
</tr>
<tr>
<td>♦ Adjusted Return on Equity</td>
<td>♦ Operating efficiency and productivity</td>
</tr>
<tr>
<td>♦ Adjusted Return on Assets</td>
<td>♦ Internal Business Processes</td>
</tr>
<tr>
<td>♦ Operating efficiency and productivity</td>
<td>♦ Level of borrower cooperation</td>
</tr>
<tr>
<td>♦ % projects accepted for loans of those presented</td>
<td>♦ % members retained</td>
</tr>
<tr>
<td>♦ No. of training events by type</td>
<td>♦ Customer</td>
</tr>
<tr>
<td>♦ Type and duration of TA offered to borrowers</td>
<td>Figures in aggregate should be collected for:</td>
</tr>
<tr>
<td>♦ Type of Loan: individual or group</td>
<td>♦ % change in sales</td>
</tr>
<tr>
<td>♦ No. Interfaces between lender and borrower/mth</td>
<td>♦ % change in profits</td>
</tr>
<tr>
<td>♦ % change in sales</td>
<td>♦ % change in staff size</td>
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<tr>
<td>♦ % change in profits</td>
<td>♦ % change in salary</td>
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<tr>
<td>♦ % change in staff size</td>
<td>♦ % change in no. customers</td>
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<td>♦ % change in salary</td>
<td>♦ Learning and Growth</td>
</tr>
<tr>
<td>♦ % change in no. customers</td>
<td>Data available from other 3 perspectives should provide ample information concerning lessons learned and growth needs.</td>
</tr>
</tbody>
</table>

Learning and Growth

Data available from other 3 perspectives should provide ample information concerning lessons learned and growth needs.
Although microfinance is not a panacea, it has potential for transforming the lives of the very poor. Nonetheless, improved metrics need to be used by institutions and programs like Working Capital, if they want to provide measurements of success which are of import to the organization, the donors, politicians, and of course, the customers.

H. Parting Thoughts

This paper attempted to extract from the literature a package of measures, or metrics, that can be used by microcredit programs and institutions to gauge their success as financial institutions, as well as their broader societal impact as welfare organizations.

What was learned is that microcredit organizations, unlike more traditional financial institutions, are largely unregulated and therefore tend to use a variety of non-standardized measures to assess their success and sustainability. Moreover, it is clear that microfinance institutions can not easily trade-off those measures that track institutional success, for those that measure the well-being of the community as a result of borrowing money and mounting a micro-enterprise, since a number of confounding factors make direct correlation difficult.

Indeed, the successful and solvent microcredit organization will make it a point to collect regularly data that reports on the financial status of the organization, its internal business practices, the rate of borrower success, and lessons learned. Moreover, the microcredit organization that assumes to impact the borrower community at large, will aggregate these data across borrower communities and monitor them along with certain health and welfare data to infer a degree of behavioral impact.