

Why Has Microfinance Been a Policy Success? Bangladesh and Beyond

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Introduction

- In the public eye, and according to many analysts, microfinance has been successful.
- Globally, at the end of 2003, 2,931 microfinance institutions (MFIs) reported reaching over 80 million clients. About 55 million were among the poorest when they took their first loan.
- Rural credit and small farmer credit – a history of dramatic policy failure.
- Development policy in this account is not seen as something solely about what *governments* do.

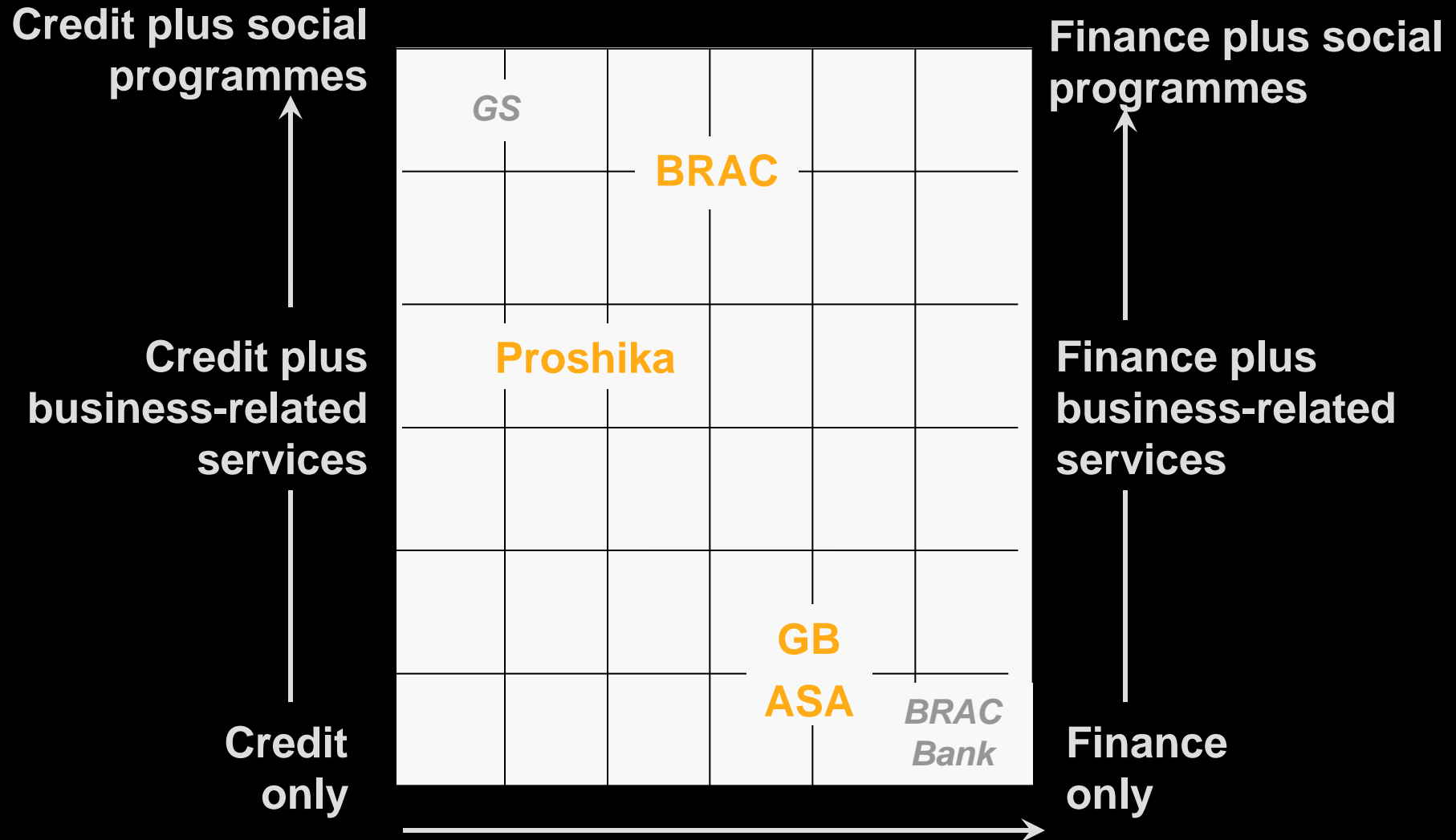
Outline

- A rapid history of the development of the microfinance industry in Bangladesh
- The evidence that microfinance has been a success in Bangladesh
- The reasons why microfinance is believed to have performed well
- The political economy of microfinance in Bangladesh
- General lessons about the processes that lead to successful development policy

What is microfinance?

- **Microcredit** – provision of small-scale loans to the poor – and more recently ...
- **Microfinance** – provision of a range of the poor's financial service needs, including credit, savings, insurance, remittance management.
- **MFI**s usually NGOs, but also government bodies, banks etc.
- Different types and amounts of **non-financial inputs** – e.g. skills training, marketing, organisational support, health and education services

Matrix of microfinance (and related) institutions in Bangladesh, 2005



GB = Grameen Bank; GS = Grameen Shikka

A brief history of microfinance and MFIs in Bangladesh

experiment, expansion, innovation

- **1970s:** rise of NGOs (BRAC, Proshika, ASA) post-war; Grameen Bank experiment
- **1980s, early 1990s:** consolidation of Grameen model and expansion; establishment of PKSF
- **mid 1990s-on:** innovation in established (e.g. Grameen II) and new MFIs (BURO, Tangail; SafeSave)

Achievements of microfinance in Bangladesh – the numbers

- About **1,500 MFIs** currently operate, with another 500 soon to join; **≈ 90% are clients of 4 big MFIs**. Most MFIs consistently report **repayment rates of 98%+**.
- Microfinance reaches ‘**significant population of otherwise disadvantaged people**’ (low/unstable incomes, little/no land/assets, low social status, few/no alternative sources of financial services):
 - 20+ million active clients (≈ 86% women)
 - (under)estimate: 15% are members of more than 1 MFI
 - (over)estimate: 75% of clients are poor
 - → **between 10 and 14 million poor households have access to microfinance**

Achievements of microfinance in Bangladesh – economic and social effects

- Evidence is mixed, but on balance suggests ‘tangible enhancement of their capabilities’, through asset enhancement and positive effects on socio-economic environment:
- On average, **positive economic effect** on clients (e.g. building non-land assets, consumption smoothing), though effects are often small, and all may not benefit equally
- On average, microfinance and associated MFI activity have had **positive social effects** (e.g. ‘women’s empowerment’; education; health; fertility)
- Studies suggest significant village-level spillover effects

Achievements of microfinance in Bangladesh – national level effects

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

- **National pride** - Bangladesh now renowned for ‘invention’ of microfinance; commitment and insight of Yunus+; vast cadre of competent, honest field staff ... not just poverty, floods etc.; now **exports model of microfinance globally** (including ‘developed’ countries)
- **Employment creation** - at least 50,000 credit officer-type positions across the country whose households derive their livelihood from provision of microfinance
- **Next generation of social entrepreneurs**

Microfinance comes of age as public policy in Bangladesh – PKSF

- PKSF is a parastatal that loans donor/other funds to partner organisations (POs) for on-lending as microcredit. **Largest, most successful apex org. globally.**
- 15% of total Bangladeshi microfinance industry and 24% of on-loanable funds available to NGO-MFIs from PKSF
- In 2003-4, PKSF provided **over US\$58 million** in loanable funds to **206 POs**: 3 'big' MFIs (ASA, BRAC, Proshika); 195 small/medium MFIs; 8 'pre-PKSF' organisations.
- Success of PKSF based upon:
 - Large, stable microfinance industry preceded its establishment
 - Strong and independent decision-making that management able to pursue, attributed to prominence and commitment of board members

Critiques of microfinance

- Recognised trade-offs between different goals: e.g. alleviation of economic poverty; empowerment; provision of broad range of financial, other services to diverse clientele; financial self-sufficiency of MFIs
- Neo-Marxist discrediting of microfinance less common, but arguments around radical social movements remain – e.g. Nijera Kori
- We know far less about defaulters and drop outs – does microfinance = microdebt?
- High costs to donors and to poor people – alternative means of spending donor money?
- Also, MFI failures do exist, even in Bangladesh – e.g. GSS, Federal Savings

Explaining success

Policy innovation, design, specification

- Innovations in targeting; screening out 'bad' (non-poor and non-viable) clients; ensuring repayment; reducing costs; administrative efficiency
- Central role of public and non-governmental organisations in transforming private sector models

Implementation

- Scaling up by the Grameen Bank
- Adoption, adaptation of Grameen model by other MFIs
- MFI innovation outside of the Grameen Model

Explaining success

Learning and adaptation

- Especially from mid-1990s

Favourable Environment

- high population density and basic infrastructure → low service delivery costs
- regular supply of new university graduates with few other employment opportunities
- levels of law and order mean that fieldworkers and bank branches are relatively secure
- foreign aid donors with large budgets available to support viable projects

Explaining success

Great Man, Great Men ...

- exceptional commitment, ability and performance of leaders

Great Little Women

- Millions of 'little' women (in terms of social status as well as height and BMI) have shown extraordinary agency and capacity to use microfinance to improve the well-being of their households **and** repay their loans.
- However, in many ways, success of microfinance in Bangladesh is based on poor women's agency (to empower themselves and care for their households) **and** poor women's lack of agency (not 'access for women', but 'women are accessible').

Political Economy of Success

- Post-war burst of human agency, energy, creativity created capital (knowledge and institutional capacities), upon which the country continues to draw today.

With special reference to the Grameen Bank:

- Skilful management of socio-political position, so that now both embedded in Bangladeshi society and able to leverage changes in society
- Internationally, foundational in creating global image of microfinance as a policy appealing to ideologies both right of centre (markets, private sector, breaking dependency) and left of centre (agency, participation, empowerment)
- Effective management of opposition from Islamic groups, leftist media, Grameen Bank staff

Beyond Bangladesh

- International face of microfinance remains largely Bangladeshi, specifically Grameen Bank
- Policy transfer through:
 - Practitioner seminars
 - 46 direct Grameen Bank 'replicates' operating in 20 countries, including US; over 100 Grameen Trust 'partners' in 26 countries, with a client base of over 1.8 million
 - Leadership roles in international microfinance bodies – Microcredit Summit (Yunus), Microstart (ASA)
 - Research and publication

Conclusion

- Microfinance – a policy success in Bangladesh and probably beyond, in terms of **public action** and **public policy**. We have revised our opinions!
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Why a success?

- Visionary leadership
- Supportive policy environment
- Effective donors
- Physical and social environment
- PKSF
- Management within the political economy
- Institutional process - learning

An overarching explanation?

- Uphoff's 'social energy'
- Agency of the poor