

REPLICATION: IS THE SEARCH FOR
BEST MODELS IN MICROFINANCE INHIBITING INNOVATION
AND INSTITUTIONAL LEARNING?

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**REPLICATION:
Is the search for best models in microfinance
inhibiting innovation and institutional learning?**

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ABSTRACT

The search for the right way to bring opportunity and sustainable development to the underprivileged parts of the world has led to efforts to move beyond the concept of traditional charity and has begun to encompass ideas that work with the people and for the people. The microcredit solution was created as such a model.

This thesis contributes to the development of the field of microcredit by providing research on the way institutions copy one another in the search for best practices and a working models. It specifically looks at the way microcredit institutions replicate established methodologies in an effort to scale up numbers of people being reached as beneficiaries of microfinance. This would allow to reduce the overhead cost of researching and developing new programs and allows for quick replication around the world. There is speculation that replication suppresses innovation and learning within the organizations and the field as a whole. It is believed that institutional performance is being largely conditioned and stagnated by objectives that concentrate on numbers and quantitative results as opposed to the original mission of achieving a significant social impact.

I examine three of the pioneering microcredit institutions: ACCIÓN International, Grameen Bank (with a look at Grameen Trust and Grameen Foundation) and FINCA International. Experiences of other institutions and programs will serve to further complement my case studies. Additionally I explore the role of the Microcredit Summit Campaign as an agenda setting forum for microfinance policy and practice.

The findings of this paper suggest the opposite of the original hypothesis. The institutions dedicated to microfinance have continued to be innovative by creating numerous ways of technology, savings, insurance and other financial services into the microcredit mix. The microfinance field is in essence a demonstration of innovation and exhibits a complicated but overall positive move. The future of the movement, however, will be determined by institutions that are clear about their motivations and reasons for being involved in the microfinance field.

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“In the rush for replication, we must not sacrifice quality for quantity.”
- Graham Wright¹

INTRODUCTION

The search for the right way to bring opportunity and sustainable development to the underprivileged parts of the world continues. Almost every country in the world has a goal to reduce poverty and increase economic opportunity for the people within their borders. Today the concept of development has moved beyond the idea of charity and has begun to encompass ideas that work with the people and for the people. The microcredit solution was created as such a model.

Over the last thirty years, microcredit has become a popular and successful method to alleviate poverty, provide access to financial services for the poor and create a lasting impact in the lives of the clients and the communities they live in. As the industry has become more accepted and known, non-governmental organizations, governments and the private sector alike have become attracted to microcredit. This has led to widespread expansion and replication* of current and existing methods of microcredit lending.

In an effort to reach as many people as fast as possible, some microcredit institutions are using blueprinting and best model practices. This brings down the

¹ Graham Wright, “Replication: Regressive Reproduction or Progressive Evolution?” *ESR Review* 2.2 (2000) 62.

* The term replication is used to discuss the process of copying or modeling a specific method or practice. In this paper, other terms will be used to help the reader understand the concept and experience the other names used for this notion. These terms include: replication, best practices, modeling, blueprinting, emulating, etc.

overhead cost and allows for quick replication. There is speculation among development scholars that replication suppresses innovation and learning within the organizations and the field as a whole. It is believed that institutional performance is being largely conditioned and stagnated by objectives that concentrate on numbers and quantitative results as opposed to the original mission of achieving a social impact. Is the drive to expand and reach more and more people forcing those involved in microcredit to adopt best practices and models? Is the search for these models and best practices in microfinance halting necessary research on methods and financial landscape and in turn stopping innovation in the field? The research for this paper started off as an intended critique of the use of modeling and blueprinting in microfinance. The objective was to look at the most common and established methodologies and strategies used in the microfinance field and how they were being used around the world. However, after an examination of the organization's methods and practices, along with an analysis of their evolution, the research led to a different conclusion.

This thesis is now intended to determine *if* microcredit organizations have adopted replication as a method for expanding their reach, and, if, so, if this utilization of best practices is stifling innovation. Does blueprinting suppress innovation? A few authors and practitioners have examined replication as used by specific organizations. None, however, have provided a review to determine if the search for best practices and replication, and efforts to quantify results to satisfy funders are impacting innovation in the microcredit movement.

In the first chapter of this paper, I will provide a brief overview of the microcredit and microfinance fields, including a discussion of the evolution of the term microcredit. This section will give the reader a general idea of the history of microcredit over the past 35 years and particularly why the field has become so popular in the last decade. It will then set the stage for the discussion on modeling and replication within microcredit and microfinance.

The second chapter will examine some of the ways of looking at replication and modeling in the broad context. I focus on providing a general review of articles, books and other writings on this topic. The history of best practices and modeling will be examined from its beginning within the profit and non-profit sector. I intend to give a strong theoretical analysis of institutional best practices and its history. The review of documents will continue with a look at how institutions measure and define success and the implications of the decision to focus on a specific measure. How microcredit in particular is being affected by best practices and modeling will be addresses at the end of this investigation.

Chapter three will look at specific microcredit organizations to describe how they are working within the best practices and models of microcredit. A description of the history, methods and broad numbers of the pioneering and other key institutions discussed in this paper will be presented. Although I will mainly be addressing the three large institutions, ACCIÓN International, FINCA International and Grameen, I will also address some institutions involved in microcredit/ microfinance practice within the field, either as a loaning institution or, in the case of the Microcredit Summit Campaign, as a

research, education and goal setting organization. The information from this chapter was obtained from interviews with key staff members within each organization and institution. This information is complemented with articles, books and other relevant sources on the practices of these institutions.

An assumption that I made in beginning the research to this paper will be challenged in chapter four. This chapter will focus on the analysis of the information collected throughout this process and which will lead to a surprising conclusion. Three theories will be presented as to how microcredit and microfinance are able to maintain innovation in the field.

My research will look at the question of whether best models and blueprinting threatens institutional dynamism as a condition for implementing sustainable microlending projects in the developing world. The conclusion of this paper will give a brief explanation of how I see the future of microcredit and microfinance.

Methodology

The idea to take on this topic arose when I experienced firsthand a replication project of the Grameen methodology (one of the pioneering organizations). Within this project, it became quite clear that the methods used by the organization in this particular location ignored local structure and conditions and thus functioned poorly and inefficiently. I became interested in the process of replication and how institutions use

their methodologies. I was curious about the effects of this blueprinting process on other microcredit organizations and on the microcredit field as a whole.

The research for this paper is based on and designed around the interest in microcredit methodology and replication. My first methodological step, therefore, was to look into background readings on microcredit and methodology development. Once I had developed some basic knowledge on the subject, I reviewed the effects replication had on innovation within the institution and on microcredit in general. I selected three of the arguably largest and most prestigious lending institutions as my case studies for this research project. I also looked at an educational and research institution whose focus is to set goals and contribute to the advancement of microfinance in development policy and practice.

I considered empirical data or specific evidence of the theoretical process of replication and measurements of success. I also examined perceptual or subjective evidence from semi-structured interviews. I conducted both primary and secondary research. Secondary research included revision of papers, documents and books published by various sources and academics with expertise on the subject. Primary research consisted of four semi-structured interviews with subjects who were intimately familiar with the methodology or institution as a whole of any of the institutions in question.

These sources and my own observations allowed me to understand how innovation continues throughout the process of best practices and modeling. Therefore, I hope my work will contribute to the understanding of microfinance and its use of specific

methodologies and models. I also hope this thesis will serve a guideline of how other institutions outside of the microfinance realm can continue innovation and institutional learning.

CHAPTER ONE: HISTORY OF MICROCREDIT-

What is it and how has it evolved?

The start of a microcredit movement

In 1976, Muhammad Yunus, an economics professor at the University of Chittagong in rural Bangladesh, established a system to provide credit to the rural poor. Yunus (along with a group of development revolutionaries around the world) created a “strategy for attacking global poverty by providing small, uncollateralized loans to some of the poorest people in the world.”² Yunus’ project became known as the Grameen Bank. (The Bangla word Grameen translates as “rural” or “village.”)³ These small (often much below \$100USD) loans are given to the poor, mostly women^{*}, usually accompanied by financial services and technology. The services and monies are allocated for the investment in income-generating activities and businesses. The hope is that with this initial boost, along with the services and savings programs, the poor will be able to lift themselves out of poverty.

² Sam Daley-Harris, “State of the Microcredit Summit Campaign Report 2006,” *Microcredit Summit Campaign* (2006) 1.

³ Grameen Bank, “Grameen Bank- A Short History,” Grameen Bank, <http://www.grameen-info.org/bank/hist.html>.

* Women bear a disproportionate burden of poverty in the world. Globalization has often times widened the gap, making women the poorest of the poor around the world. “Not only do women constitute the majority of the poor, the underemployed, and the economically and socially disadvantaged, but they more readily and successfully improve the welfare of both children and men” (Yunus 72). It has been proven that credit given to a woman will bring about positive change, faster than credit given to a man. Microcredit projects around the world have focused on women and found that women repay at a much higher rate than men and the money generated is recycled into the home, children’s education and the family.

The Grameen solution to global poverty is based on the belief that credit is a human right and that access to credit is incredibly difficult for the majority of the people in the world. Yunus explains that a key component of why people are poor is because the financial institutions in their countries of origin did not allow the right to use credit or other financial services.⁴ Yunus coined the term “financial apartheid” which means that the poor remain poor because these financial institutions and systems refuse to provide them with credit. Therefore, the poor do not have the monetary resources necessary to develop and build success income-generating activities.

Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GB, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the overall development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable.⁵

The Grameen Bank, over the last 35 years, has expanded to the other parts of Bangladesh and into the rest of the world. By using their tested and successful methodology based on a group collateral*, the Grameen has served as an example of development and poverty reduction achievements. The successes of microcredit replication in many countries

⁴ Muhammad Yunus, “Banker to the Poor,” New York: Public Affairs, 1999: 50.

⁵ Grameen Bank, “Grameen Bank- Introduction,” Grameen Bank, <http://www.grameen-info.org/bank/index.html>.

* As an alternative to physical and traditional collateral, the Grameen Bank created an alternative method they call group solidarity or social collateral. In order to receive credit or a loan, a group of five individuals must join together. This group is ultimately responsible for repayment if an individual in the group defaults on the loan. The group acts as “moral responsibility” for each loan within the group.

“shows that the basics of the microcredit program are replicable in very different settings, providing certain basic principles are followed and some preconditions met.”⁶

Microcredit versus Microfinance

It is essential to define the difference between microcredit and microfinance. Realizing that this is not the key topic of this paper, it is still important to acknowledge the distinction between the two. The difficulty in presenting a conclusive definition lies in the fact that there are competing conceptions over the meaning of these terms. Some argue that the terms are interchangeable while others take the position that microcredit and microfinance have specific definitions. For the sake of this paper, I will define the two as separate terms. I would, however, like to point out that some of the materials referenced below use these terms interchangeably. In those instances, I will make note of how the term is utilized in that notation.

Microcredit is defined as providing very poor families with very small loans to help them engage in productive, income-generating activities or grow their small micro-enterprises and businesses. Microfinance, however, “has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor who lack access to traditional formal financial institutions require a variety

⁶ Lamiya Morshed, “Lessons Learned in Improving Replicability of Successful Microcredit Programs – How Can the Best Models ‘Travel’ Better.” *Global Microcredit Summit 2006* (2006): 3.

of financial products.”⁷ Microfinance includes services such as microcredit, microsavings or microinsurance to poor people.

The difference between microcredit and microfinance is that microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients. Microcredit refers to a small loan to a client that can be offered, often without collateral, to an individual or through a process of group lending.⁸ In other words, microcredit is a provision or a product within microfinance. Microfinance serves more than just credit needs. Dunford adds, “nowadays there is a bewildering variety of types and combinations of clients, delivery systems and institutional structures that shelter uneasily together under the big tent known as microfinance.”⁹

Marguerite Robinson defines microfinance as “small-scale financial services- primarily credit and savings- provided to people...to other individuals and groups at the local levels of developing countries, both rural and urban.”¹⁰ They offer savings that are not linked to credit programs, meaning it is not required to save to take out a loan and their clients can choose to use a savings program, allowing them to “store excess liquidity for future use to obtain returns on their investments.”¹¹ Robinson argues that the organizations operating solely in microcredit are only able to function on a small scale.

⁷ The Microfinance Gateway, “What is Microfinance,” <http://www.microfinancegateway.com/section/faq#Q1>, accessed on March 16, 2008.

⁸ IBID

⁹ Christopher Dunford, “The Holy Grail: ‘Helping the Poor’ and ‘Sustainable?’”, *Microfinance- Evolution, Achievements and Challenges*, Ed. Malcolm Harper, London: ITDG, 2003: 150.

¹⁰ Marguerite Robinson, “The Microfinance Revolution: Sustainable Finance for the Poor,” Washington DC: The World Bank, 2001.

¹¹ IBID

It is also important to note that in this paper, microfinance and microcredit institutions include both profit and non-profit organizations as well as the public sector. This is not meant to imply that the government funds microfinance or microcredit or that they do not make a profit. Some microcredit institutions may receive a portion of their funding from government agencies, but the majority of MFIs are not obtaining monies from public sources. Microcredit and microfinance institutions, although primarily organized as non-profit organizations, do require the return of monies in order for the organization to run appropriately. It has been found that microcredit does provide a return on investment.¹² How the institutions use their “profits” reflects their mission and objectives.

The institutions dealing with microcredit and microfinance are diverse. “Suitable institutions may take many forms, from user-owned co-operatives to not-for-profit foundations (such as NGOs) to for-profit fully commercialized businesses.”¹³ The diversity in institutional type makes any broad study on microcredit and microfinance rather difficult and complicated. I hope to address these complications throughout the paper when they apply.

¹² The Microfinance Gateway, “What is Microfinance?”.

¹³ Stuart Rutherford, “Raising the Curtain on the ‘Microfinancial Services Era,’” *Microfinance-Evolution, Achievements and Challenge*,. Ed. Malcolm Harper, London: ITDG, 2003. 49.

Microcredit successes and criticisms

Over the past 35 years, microfinance institutions (MFIs) have grown exponentially. Other organizations, institutions and governments witnessed the success of development of the pioneering microcredit institutions and joined the fast growing microcredit movement. In 1997, an organization designed to follow the trend, the Microcredit Summit Campaign, held a global meeting to discuss and evaluate the state of microcredit in the world. At this meeting of institutions, agencies, organizations, and other key players, a goal was launched in the effort to scale up microcredit as an essential tool for reaching the Millennium Development Goals.* The Summit set an objective of reaching “100 million of the world’s poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the end of 2005.”¹⁴

The meeting helped to place microcredit more firmly on the global development policy agenda. Continuing with the excitement of microcredit, the United Nations declared 2005 to be the year of the microcredit. In 2006 Muhammad Yunus and the Grameen Bank were granted the Nobel Peace Prize. To the development community, microcredit became a clear and innovative way to approach development. “When executed effectively, it can 1) relieve suffering, 2) bring dignity, 3) become sustainable,

* The Millennium Development Goals are a set of eight objectives that include cutting extreme global poverty levels in half, stopping the spread of HIV/AIDS and universal primary education. With a target date of 2015, all the world’s countries and development institutions are participating in the efforts to achieve this important end.

¹⁴ Daley- Harris 1.

and 4) inspire supporters.”¹⁵ The successes of microcredit are notable and have brought much attention to the fast growing movement. Of course, along with attention comes criticism. Over the past few years, and partially as a result of the growing attention, microcredit has come under scrutiny.

“As in any emerging industry, debates are endemic. But in microfinance these debates are among people who work every day to increase the employment opportunities, incomes, and self-confidence of the poor. These debates are among good people.”¹⁶ The criticisms of microcredit revolve around many of the obvious problems. The first of these problems is that the movement lacks evaluation of the impact and thus does not have the ability to show causality between the improvements in the lives of the microcredit clients and the credit itself.

Another criticism is that microcredit has not shown a substantial improvement in women’s lives. On the contrary, it is believed that microcredit has trapped the women in a powerful cycle of debt repayment and is thus undermining expected sustainability. A common argument against microcredit is that it is not actually able to reach the poorest of the poor and cannot pull a person out of poverty.

A new criticism focuses on the process of replication of methodologies. It is argued that a model, developed to function in a rural area, in a culturally specific society, cannot function the same way when applied in other parts of the world, for instance areas that are urban, mobile, conflict ridden, etc. In spite of this, many institutions continued to

¹⁵ Daley- Harris 1.

¹⁶ Robinson xxxiii.

set up microcredit projects around the world based on one or two tested methodologies. In this paper, methodology will be defined as “the set of systems and procedures a program develops in order to deliver its services to clients.”¹⁷

Successful microcredit projects have emerged all around the world, showing that it can function everywhere around the world. It is able to work in a small rural village in Bangladesh, in the urban slums of Bolivia and in cosmopolitan and suburban parts of the United States. That being said, however, can microcredit work in the *same* way within every country, city, village and culture? For example, will a group model be an appropriate technique in a setting where social cohesion is lacking and people are individualistic?

As pioneering microcredit institutions, Grameen Bank, Acción International and FINCA International had the task of setting up viable, tested methodologies. With the strong success established by those models, many institutions and agencies began the process of replicating these methods around the world. Grameen, ACCIÓN and FINCA also continued to reproduce their programs in different places around the world.

Models and replication

According to Maria Otero, the president and CEO for ACCION International, “microfinance, at its best, is defined by a set of common attributes that serve as the

¹⁷ Michelle Shoresman, “From Bangladesh and Bolivia to the United States: Replicating Successful Microfinance Programs,” *University of Washington* (2000) 8.

starting point.”¹⁸ The process of replicating these “best models,” “blueprints,” or “common attributes” has allowed for easy, quick and efficient applications of microcredit all around the world. In other words, this type of copying of models allows for a rapid start-up using tested models and systems. Modeling, in the context of this paper, will be defined as the provision of standard and uniform reproductions of policy frameworks.¹⁹

It is this process that creates strong problems for sustainability, however. According to Graham Wright, this type of replication of methodology requires substantial modifications to make them appropriate for local conditions. He also argues that blueprint replication suppresses innovation and is used as a substitute for careful research.²⁰ Morduch agrees and posits that

the power of the win-win vision- that clients demand credit access at whatever the cost- has hindered the broader encouragement of experimentation, innovation, and the exchange of experiences that can lead to (a) new financial products for which the “core” poor are willing and able to pay relatively high charges and (b) cheaper ways to deliver financial services to poor clients.²¹

The same institutions that are responsible for creating these models, and were lauded for finding a new and original way to develop, are now falling under criticism because of these models. The large, pioneering institutions promulgated their systems and defended them. They perpetuate the replication of their methodologies. “One result has been widespread replications of standard models (especially the Grameen Bank model

¹⁸ Maria Otero, “Profitable Financial Systems,” *ESR Review* Summer 06 (2006): 6.

¹⁹ Barbara Wejnert, “Integrating Models of Diffusion of Innovations: A Conceptual Framework,” *Annual Reviews of Sociology* 28 (2002) 308.

²⁰ Wright 61.

²¹ Jonathan Morduch, “The Microfinance Schism,” *World Development* 28:4 (2000): 619.

and FINCA's village banking model) in a wide diversity of economies."²² Replication is happening and it is happening very fast. In line with the goals of the Microcredit Summit Campaign, reaching 100 million people with credit and financial services by the year 2005 meant finding the "best models" and applying them broadly. It also called for the quick spread of these models around the world.

The wide replication of methodologies limits research about what Wright calls the "financial landscape." This is an essential market survey of the cultural and "strategic environment" where the microcredit replication will take place. He argues that there is a need to design methods that are economically appropriate, tailored to the needs and opportunities of the environment in which the organization works. Wright continues by explaining that making an institution sustainable requires that they be appropriate to work with and in local conditions.²³ With fast replication, institutions are ignoring this financial landscape and thus drastically lowering the possibility of creating sustainable, long-lasting services.

Sam Daley-Harris, the Executive Director of the Microcredit Summit Campaign argues that Microcredit is and can be effective and extremely successful. He says, however, that it is successful "when executed effectively." He continues, "it must be designed and implemented with great care to achieve both financial strength and impact."²⁴

²² IBID

²³ Wright 64.

²⁴ Sam Daley-Harris 5.

In following the 1997 and the 2006 summit goals of reaching more and more people with microcredit services, the focus is shifted to quantitative factors. If this is the case, then quality may be sacrificed in the interest of quantity. The institutions become focused on numbers, which, in turn, changes the original microcredit goals away from their original mission statements of social change. This new focus on numbers and the need to show concrete results, forces these institutions to rush and use “blueprint” replication.

The swing in focus brings about a new question that the microfinance movement is dealing with currently. How do you analyze success? In this circumstance, social change is measured qualitatively. If the qualitative success is hard to prove, institutions will use a quantitative result. With institutional constraints being what they are, in terms of dealing with rigid timelines, limited resources, and the need to be practical and simplify methods, there are going to be trade-offs.

Unfortunately, there are cultural and social realities, teamed up with institutional constraints, which forces a need and a desire for everything to be done faster. According to Jonathan Morduch, a professor at New York University and a microfinance researcher, “a beginning point...is recognizing that the same forces driving efficient outcomes in free markets- hard budget constraints, clear bottom lines, and competitive pressure.”²⁵ A new and changed view and altered concept of efficiency and success is created. This changed view is focused on a quantitative result, and thus a focus on success by reaching as many people as possible, as fast as possible.

²⁵ Jonathan Morduch, “Smart Subsidies,” *ESR Review* Summer 2006 (2005) 10.

As a result of these beliefs and concerns there are some microfinance institutions veering away from the use of a specific methodology or practice. Organizations like ACCIÓN work in the microfinance realm in a different way than most. This paper, however, is not intended to look poorly on those who are following a model. Instead, it is to serve as an appraisal and possibly a precaution to those wishing to enter the microcredit field. It is hoped that this paper will encourage institutions to innovate the field through necessary research and development.

CHAPTER TWO: THEORY- THE MOVE TOWARDS PRIVATE

Microfinance organizations along with non-profit organizations and government entities have been pressured into functioning and running similar to the way the private business sector is conducted. In this chapter different theories will be reviewed about the behaviors of non-profits, the public sector and particularly microfinance institutions. This section will look at how and why they are attempting to emulate the behaviors of profit seeking private sectors. The search for best practices and models is particularly interesting to examine in the microfinance field.

The first section will be an overview of the use of best practices and modeling in the private sector including a history of the two. My analysis will continue with a look at how institutions measure and define success and the implications of this decision. How microcredit is affected in particular by best practices and modeling will be addresses at the end of this chapter. This section will look further into what others have said about the use of best practices in the microfinance industry.

Best practices and modeling

The concept of best practices was established within the private sector^{*} to make corporations and business run more efficiently and less costly. “The private-sector

^{*} In this paper the private sector will be defined as organizations that are established as profit seeking entities.

business is focused on the institutions, whether or not it is profitable and therefore financially self-sufficient.”²⁶ Best practices is the concept of creating a strong model of specific elements that make a project, business, or program run successfully. In the private sector world, this search for best models or practices is paramount to an efficiently run business.

The non-profit and public sector follow what Christopher Dunford refers to as development programming.

Development programming is focused on the development impact. It defines its impact very intentionally in terms of a particular market, like a geographic area, or certain communities, or classes of families or individuals who are to benefit from the intended impact. Products are designed specifically to produce this impact. An institution is created to make and distribute these products to have this development impact on this market.²⁷

Microfinance as a field was established in the “development programming” mode.

As the non-profit and public sector begin to become more and more donor reliant, the need to show efficiency and appropriate use of resources is becoming a key goal and obstacle for the organizations and agencies. In the hope of attaining the behavior and cost effectiveness of the private sector, the public sector* is beginning to follow this idea of building and incorporating best models and practices into their rhetoric.

A transition from the search for providing good services to a specific population to a search for a best model to apply broadly across a particular field has occurred. In the interest of showing that “development programming could function as efficiently and as

²⁶ Christopher Dunford, “In Search of ‘Sound Practices’ for Microfinance,” *ESR Review* 2.1 (2000): 9.

²⁷ IBID

* In this paper, the public sector refers to either government, non-governmental or not-for-profit entities.

free of donor support as private sector business[, t]hey have created ‘best practices’ designed to complete the transformation of microfinance into the private sector business mode.”²⁸ The public sector and non-profit world argues that this shift is toward following the private sector in providing efficient and cost effective programs. In other words, in the interest of attracting donors and other interest groups, the public sector and particularly the non-profits are being forced to show that each project is running smoothly and cost effectively. As a result, they are turning to models and other already-tested methods to achieving their end.

The non-profit’s and public sector’s search for best practices has led to the imitation of similar and preexisting methodologies and functions in the hope of cutting out the time that is needed for research and development of a product, program or an industry in general. Organizations and agencies are using processes tested and proven successful by other organizations and agencies. This process of building and emulating is inevitable, according to Paul DiMaggio and Walter Powell. They believe that innovations, like the research and development phases of methodologies, within a field *only* happen within the first few years of the industry’s existence.

Institutions initially begin the process of developing their methods and strategies by doing comprehensive reviews of what is needed for specific locations, cultures, people, etc. The front-runners experience the research and development stages and they are the ones who standardize the field. Once the field becomes more elaborated, the innovation is halted and a process of what they call “isomorphism” takes over. They

²⁸ Dunford, *Sound Practices*, 10.

define isomorphism as “a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions.”²⁹ Barbara Wejnert calls this same process institutionalization. She defines this as the “spread of rule-like behavioral models that are supported by common recipes and an implicit structure of incentives for the adoption of approved forms of practices, programs, or policies. Standardization of these models elicits adoption of institutionalized practices.”³⁰ In other words, institutionalization or isomorphism is the process of emulating and bureaucratizing practices and innovations to become habit.

When new institutions enter the industry, they build their methods off an already set concept or notion of that particular field. DiMaggio and Powell use an example of a municipal administration policy to explain this process, “later adoption is not predicted by city characteristics, but is related to institutional definition of the legitimate structural form.”³¹ As familiarity with an innovation (or methodology) increases, the process of adoptive behavior (or replication) is facilitated. This is because the perception of risk of adopting the said innovation is less.³²

DiMaggio and Powell explain that there are three “mechanisms through which institutional isomorphic change occurs,”³³ coercive, mimetic and normative isomorphism. Coercive isomorphism occurs as a result of pressures, either formal or informal. Organizations have these pressures exerted on them by the organization with which they

²⁹ Paul J. DiMaggio and Walter W. Powell, “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields,” *American Sociological Review* 48.2 (1983) 149.

³⁰ Wejnert 315.

³¹ DiMaggio and Powell 149.

³² Wejnert 304.

³³ DiMaggio and Powell 150.

are dependent. Cultural expectations in the society where the organization functions also cause coercive behaviors. “Such pressures may be felt as force, as persuasion, or as invitations to join in collusion.”³⁴

As the discussion of the definition of coercive isomorphism continues, they discuss interdependence in institutions. They explain two features of politically constructed environments where there is an unmanageable interdependence and a much greater power. The first characteristic is that the “political decision makers” have very little or no direct consequences for their actions. The second characteristic explains that political decisions are being applied “across the board to entire classes of organizations, thus making such decisions less adaptive and less flexible.”³⁵ The use of coercive pressures to conform causes homogeneity and increases replication. This can be done by “using explicit or implicit rewards or negative contingencies to produce conformity and compliance with respect to adoptive behavior.”³⁶

Mimetic isomorphism is explained as a form of imitation. DiMaggio and Powell argue that uncertainty encourages imitation. They explain that when an organization’s technologies are weakly understood, the goals of the organization are vague and unclear, or when there is a form of doubt in an environment, the process of modeling occurs. They define modeling as a response to uncertainty and a convenient source of practices that can be taken. An organization may not be aware that they are modeling or being modeled.³⁷

³⁴ IBID

³⁵ IBID

³⁶ Wejnert 308.

³⁷ DiMaggio and Powell 151.

Organization and managers often actively seek models to build their programs from. They tend to follow the examples of similar and more legitimate or successful organizations inside the same or like field. They seek to enhance efficiency by cutting out steps in the process and create immediate legitimacy by adopting well-known approaches and practices.

The third type of isomorphism is referred to as normative. This last form of isomorphism stems from the idea of professionalization. This is a “collective struggle of members of an occupation to define the conditions and methods of their work, to control ‘the production of producers’ and to establish a cognitive base and legitimation for their occupational autonomy.”³⁸ In other words, socialization, information exchange, universities and professional training, grants, contracts, awards, etc. give legitimacy and make people want to copy. Normative isomorphism also looks at the homogenization of organizations as they seek to show and provide same benefits and services as their competitors.

Wejnert explains normative isomorphism as the network of organizations with similar goals. She argues that these professional associations or groupings are the single most important variable in regards to replication.³⁹ Peer pressure, which could be considered either normative or coercive depending on its nature, plays a large role in replication as well.

³⁸ DiMaggio and Powell 152.

³⁹ Wejnert 307

The discussion of isomorphism continues by explaining that with more uncertainty about what the means will be to reach an end, the higher the probability of copying. In other words, if an organization is looking to create a program that's end is the reduction of poverty, but they do not know how to achieve this end, they may turn to a model that has previously tested and accomplished this task. They will copy their methods in hopes of attaining legitimacy and an efficient entrance into the field.

DiMaggio and Powell contend that “in fields characterized by a high degree of uncertainty, new entrants, which could serve as sources of innovation and variation, will seek to overcome the liability of newness by imitating established practices within the field.”⁴⁰ They go on by arguing that “organizations which lack well-defined technologies will import institutionalized rules and practices.”⁴¹ Therefore, it can be seen as a normal process that microcredit institutions and other similar organizations working to reach a difficult goal and quickly will turn to the process of modeling and copying of the older and more established organizations.

Microfinance can be seen as fitting into all three forms of isomorphism. The larger and pioneering MFIs take on the role of the coercive isomorphism by only allowing those organizations that adopt their methodology to be a part of their network. The role of donors and dependence on donor funds takes on the coercive nature by only granting fund to those working with specific models.

⁴⁰ DiMaggio and Powell 156.

⁴¹ DiMaggio and Powell 155.

Mimetic Isomorphism is explicit in the microfinance field. It could possibly be the strongest form of isomorphism with regards to microcredit. Since other organizations and MFIs have accomplished the creation of a successful model and others may not completely understand or wish to skip the research and development steps, mimetic and copying isomorphism occurs often.

The last couple of years have been important and exciting years for the microcredit field. A perfect example of normative isomorphism is in the awarding of the 2006 Nobel Peace Prize to Muhammad Yunus and the Grameen Bank. The receipt of this prestigious award has created an unprecedented interest in microcredit. Replication of the Grameen credit delivery system grew exponentially following the Prize.⁴² A similar example for the entire field of microcredit is in the decision by the United Nations to make 2005 the Year of the Microcredit. The announcements of these two events created a positive reputation around specific ways of doing microcredit work.

The three stated reasons why institutions will replicate or copy established models can clearly be seen across the microcredit realm. The tensions placed on an organization, in terms of bureaucratic and donor demands, unknown means and model prestige will drive them to skip essential steps in the research and development of a product and simply copy past efforts.

⁴² Morshed 3.

Measuring success in number or social impact

Continuing with the concept of modeling and its inception from the private sector, another shift in non-profits and public sector practices towards the private, for-profit sector has occurred. With the growing reliance of the non-profits and public sector on donors and other shareholders, these organizations have become wrapped up in the quest to define what is success with respect to their goals and missions.

The private sector measures outputs by economic efficiency and quantifiable indicators. In other words, this sector looks for profits and money as their gauge of achievement. Historically, the public sector and non-profits, on the other hand, have determined success by providing adequate and good services to its clients. In the public sector's search to become more efficient, a drive to show success in numbers and in economic efficiency has now become the norm.

In the public sector, the output has been about something other than efficiency. It is understood that efficiency is also important, however, sufficiency and providing quality services are the key outputs that are required by the public sector. If the nature of the organization or institution is not for economic gains or profits, then the search for efficiency and quantitative indicators are not relevant, or at least not to the same extent as in the private sector.

These yields, of the public sector and non-profits, sufficiency and quality services, are not, however, easily demonstrated as output indicators. The measurements are usually not quantitative but qualitative and descriptive. The use of qualitative gauges makes

comparing and contrasting achievements very difficult, whereas with numbers it is very simple to compare. In the effort to display these differences in accomplishments more obvious, and because the tools are just starting to come out on how to measure social impact, the public sector and non-profits have turned to quantifiable indicators. These measurements look at numbers of people reached and monies allocated to different places.

As a consequence of this shift in approach to measuring success, organizations and institutions have lost the focus of their original mission statements and institutional goals. In microfinance movement, for example, many MFIs use social impact and empowerment as end goals for their programs and as part of their mission statements. These institutions, however, have veered more towards the aim of reaching as many people as possible, in a very short period of time.

There has been a push to develop and create a universal definition as to what “success” means in microfinance.⁴³ Would this definition look more towards social impact or on the numbers? Is sustainability of the institution* a contender for measuring what a successful microcredit institution should look like? The discussion around the definition of success has led to a break-off of microfinance institutions creating projects with different focuses and end goals. Goals such as empowerment, sense of security and gender rights are examples of qualitative measures of impact or non-quantifiable goods that development historically has focused on.

⁴³ Shoresman 10.

* Sustainability in microfinance is defined as an institution that is no longer donor reliant and all the money in the institution comes directly from the interest gained from past and current loan clients.

Best practices and its implications for microcredit

The interest of the private, for-profit sector focuses on profitability and financial self-sufficiency as the indicators of how to measure success. It is because of this that their focus remains on the institution instead of the services they offer. Non-profits and microfinance organizations, however, focus on how they develop and define their intended impact. Microfinance fits into the realm of “development programming.” According to Dunford, this area must focus its efforts and programs to fit a specific region or community. Their products and services must be created around this particular market and produced to make an identifiable impact.⁴⁴ Thus, the process of building a microfinance institution is different, even from its onset, from the process of a profit-seeking firm.

Andrew Schoenholtz, in his article “the IMF in Africa: Unnecessary and Undesirable Restraints on Development,” explains the reason for the similar criticisms against the International Monetary Fund (IMF) that microcredit institutions are facing. He argues that the IMF still has not been able to settle the institutional problems that they have encountered from the beginning; “the Fund has yet to make the cultural and political leap necessary to understand and work with, rather than against, the majority of its

⁴⁴ Dunford, *Sound Practices*, 9.

members who are in the Third World.”⁴⁵ Schoenholtz continues this thought by reiterating that “until the I.M.F does so, it will continue to be harshly criticized and distrusted.”⁴⁶

Microcredit is at similar risk of this type of criticism and ultimately the same distrust that the IMF has been dealing with for decades. Articles have been emerging which criticize microfinance as a method for poverty alleviation. These papers’ critiques range from failed microcredit attempts in a specific village or country to large overall arguments against approaches and theories.

Microfinance is technically new and is still in the realm of development as an industry. Dunford argues that “the microfinance movement is still in a mode of intensive learning, we should not presume too soon what will be ‘best’ for all.”⁴⁷ This, however, should be the case for all institutions and organizations. The intensive learning should never end. In order for an organization or institution to remain effective, it is important and necessary for the learning process to always continue. When looking at microfinance currently, “research is skimpy”⁴⁸ and requires more work.

In the attempt to reach as many people as possible and to develop as quickly as possible, organizations are skipping the research and development phases and have begun applying in their place a set of best practices. The search for a “best model” or best

⁴⁵ Andrew I. Schoenholtz, “The I.M.F. in Africa: Unnecessary and Undesirable Western Restraints on Development,” *The Journal of Modern African Studies* 25:3 (1987): 403.

⁴⁶ IBID

⁴⁷ Dunford, *Sound Practices*, 1.

⁴⁸ Claire Cain Miller, “Easy Money,” *Forbes.com* 27 Nov. 2006
<<http://members.forbes.com/forbes/2006/1127/134.html?token=MjUgTWYyIDIwMDcgMTY6Mjc6MzEgKzAwMDA%253D>>.

strategy to achieve quick growth has become very popular in the non-profit world and particularly in the microcredit field. Wright and Dondo argue that in the early years of the Consultative Group to Assist the Poor (CGAP), the use of best practices focusing on a goal of sustainability was pushed for the microfinance field. “CGAP had established a common language for the industry and had catalysed the acceptance of ‘best practices’ built on the principle of sustainability as a central part of any self-respecting MFI.”⁴⁹ The best practices used directly relate to institutional mission and goals. When an institution is focused on sustainability as a main objective, their concept and list of best practices will directly relate to sustainability.

The danger occurs when the organization or institution finds this “best model” and uses it in as many places as possible as fast as possible, often ignoring social and cultural differences and institutional objectives. Innovations, or in the case of microfinance, methodologies, are not separate from their environmental contexts. A successful replication and transfer of a methodology is dependent on that technology’s ability to function in other environments.⁵⁰

As Dunford argues, microfinance institutions are creating these best practices and models, “even when that means abandoning the product and market that gave microfinance life.”⁵¹ Wright and Dondo agree with Dunford, “for many of the advocates of ‘targeting the poorest’ it is this move towards an emphasis on sustainability and

⁴⁹ Wright and Dondo 143.

⁵⁰ Wejnert 310.

⁵¹ Dunford, *Sound Practices*, 10.

commercial funding that also results in ‘mission drift’ and the MFIs focusing increasingly on the non-poor as their preferred clients.”⁵²

Some of the criticisms of microfinance look more comprehensively at the process of blueprinting and replication. Wright argues that these types of programs ignore the existing social structures, including informal savings and loan groups or systems. These structures, he believes, could help MFIs learn from and strengthen their programs. Wright explains that this understanding of the existing structures is a “prerequisite for designing appropriate quality financial services for the poor.”⁵³ MFIs need to know important information about what is already functioning within the community where they are planning on working. This information is what Wright calls the “Financial Landscape”.

Dunford suggests that although there should not be a set of best practices, a set of what he calls, “sound practices” should be made explicit. The difference, he argues, will allow for change and experimentation, and also the differentiation between different strategies and structures. He continues by explaining that because of the diversity in strategy and structure of organizations and institutions, “there cannot possibly be a unitary set of best practices, only diverse sets of sound practices.”⁵⁴ Seibel and Torres agree with Dunford. They believe that there is no best practice or optimal solution that

⁵² Wright and Dondo 143.

⁵³ Wright 67.

⁵⁴ Dunford, *Sound Practices*, 2.

can be applied around the world to alleviate poverty. However, a set of “good practices that work for a limited time under certain conditions”⁵⁵ may be achievable.

If best practices are used, then the key to interpreting them is to clearly understand the objectives of the organization by which they are used. “Most of all, we need to be broadminded and honest, with ourselves and others, about our orientations, objectives and our appropriate roles in the bigger picture of the microfinance movement.”⁵⁶ Dunford fears that the key objectives of microfinance get lost along the way. The main purpose of microfinance as a movement has been focused on the concern for the very poor. As the larger institutions enter a market, outreach to the very poor dwindles and services are adopted to reach a less poor population. This focal point of the movement on the very poor has been pushed aside as the field becomes more replicated and modeled.⁵⁷ Commercialization and the partnerships with formal banks have changed the target population of microcredit to that of a middle to lower income population instead of the original purpose of reaching the very poor and marginalized.

Replication, on the other hand, has positive affects on the field as well. Through the process of modeling, it has become possible to reach people in the developing world much faster and much more cost-effectively than before. Through the use of models and best practices in beginning new microcredit ventures in new countries or new settings,

⁵⁵ Hans Deiter Seibel and Dolores Torres, “Are Grameen Replicators Sustainable, and Do They Reach the Poor? The Case of CARD Rural Bank in the Philippines,” *Rural Finance Working Paper No. B1*: (1999) 6.

⁵⁶ Dunford, *Sound Practices*, 6.

⁵⁷ Dunford, *Sound Practices*, 7.

models can be sent around the world quickly. Replication allows for rapid start-up using tested models and systems.⁵⁸

The weaknesses of this type of replication, however, are substantial. To model a microfinance project usually requires “substantial modifications to make them appropriate for local conditions.”⁵⁹ Replication should not be the substitute for careful research and it should not suppress innovation, although in the past this has been the case. There is a need to design methods that are economically appropriate systems which are tailored to the needs and opportunities of the environment in which the organization works.

Although modeling allows for quick projects to be established around the world, “blueprint-driven replication,” as Wright calls it, will not lead to valuable products.

Blueprint replication will not lead to quality financial services tailored to meet the local needs and opportunities of the community the institution is trying to serve. Indeed, it is likely to result in a system that forces users to manage their way around its inappropriate rules, regulations, systems, and services. Introducing a system of financial services without having researched the financial landscape and the needs and opportunities it presents is similar to assuming that you can drive a city sedan on all roads. What worked in Bangladesh will not necessarily work in Nepal, Burkina Faso, or the Cordillera.⁶⁰

In an article by Forbes magazine written about microcredit’s failure in India, they discuss the lack of commitment and lack of monitoring that comes with rapid growth. “In

⁵⁸ Wright 61.

⁵⁹ IBID

⁶⁰ Wright 79.

their anxiety to expand very fast, they are pushing loans...they're not careful in vetting.”⁶¹ They continue,

the rapid growth also means that lenders are less likely to keep tabs on a borrower after a loan is made...lenders often hand over money without taking the time to educate the borrowers, making sure they understand that they're supposed to start businesses and that there are penalties for not paying the money back.⁶²

The result is a miscommunication and a failed product.

Maria Otero adds that the institution needs to be established to be a permanent structure. “Permanence of institutions is essential- running out of money to lend or being sloppy in management cannot happen.”⁶³ She argues that for microfinance “to make a real impact, they have to be permanent; and in order to be permanent, they must be economically viable.”⁶⁴

The process in which to become permanent, sustainable and economically viable in some opinions is to shift “from the delivery of government-or donor-subsidized credit to the development of sustainable financial intermediaries that capture local savings, access commercial finance, and lend these funds to low-income borrowers at interest rates that enable full cost recovery and institutional self-sufficiency.”⁶⁵

In the interest of sustainability and innovation, microcredit institutions are moving into the realm of microfinance. “In that mode, microfinance institutions are already

⁶¹ Cain Miller 2.

⁶² IBID

⁶³ Otero 7.

⁶⁴ Otero 6-7.

⁶⁵ Robinson xxxii.

growing and diversifying their products and markets in pursuit of self-preservation.”⁶⁶ Instead of providing microloan or microcredit programs alone, institutions are moving into the microinsurance and microsavings domain. They have expanded their interest not only to make themselves sustainable and to be more innovative, but also in response to the needs of the poor they are serving.

This argument has been guided by the debate about the changing nature of poverty and the differing ideas of who the poor are. Rutherford explains how, in the mid twentieth century, the focus was on the “small and marginal farmers of the ‘agricultural credit era.’” These farmers, he continues, “were generally offered seasonal loans tied to specific crops and recovered in balloon repayments made after the harvest was gathered.”⁶⁷

The next focus of financial services for the poor revolved around women entrepreneurs and *microloans* to help fund their small businesses. “In the succeeding ‘microenterprise era’, private institutions, often originating in the voluntary sector, played a much larger role.”⁶⁸ This era is what has been referred to as well as the microcredit period or also Robinson’s “poverty-lending approach.”

Like Robinson, Rutherford argues that we have entered a new era that which he calls the “microfinancial services era” (Robinson’s “financial systems approach”). “Unlike the previous two eras, when financial services for the poor were clearly characterized first by agricultural loans, then by microloans to business women, the new

⁶⁶ Dunford, *Sound Practices*, 10.

⁶⁷ Rutherford 38.

⁶⁸ IBID

microfinancial services era promises a diversity of financial products, and with it confusion about how these products will benefit the poor.”⁶⁹ This era focuses not only on farmers and women, but also on a “diverse group of vulnerable households with complex livelihoods and varied needs.”⁷⁰ It is this diversity, complexity and variety that define microfinance. We are no longer looking at the simplistic methods of microcredit.

⁶⁹ Rutherford 37.

⁷⁰ IBID

CHAPTER THREE: THE REALITY FOR MICROFINANCE TODAY

In speaking with the pioneering microcredit and microfinance institutions and reading articles, books and other materials pertaining to the concept of replication in microcredit, a realization and epiphany surfaced. The microcredit field has in fact evolved into something quite different and much more complex than what it once was.

This chapter will look at how the field has changed and morphed into something different and how the models and institutions have changed along with it, sometimes even spurring this change through innovation and growth. This chapter will serve to disprove the theories presented in the previous chapter and, more specifically, the hypothesis of this paper.

Pioneering microfinance institutions

This section will look at some of the pioneering institutions involved in microfinance today.

Grameen (Bank, Trust and Foundation):

This thesis will focus on the work of different organizations joined around the Grameen philosophy; the founding organization- the Grameen Bank, Grameen Trust and Grameen Foundation.

The Bank

As described in the previous chapter, the Grameen Bank was created by Muhammad Yunus in Chittagong, Bangladesh in 1976. The Grameen Bank has a very straightforward methodology requirement. This specific method of microcredit is what the Grameen Trust is responsible to replicate in other locations around the world. Listed below are the Grameen Bank's key aspects of their "credit delivery system" or methodology.

Grameen methodology:⁷¹

- * Very small loans given without any collateral
- * Loans repayable in weekly installments spread over a year
- * Formation of small homogenous groups of about five persons
- * Eligibility for a subsequent loan depends upon repayment of first loan
- * Individual, self chosen, quick income generating activities which employ the skills that borrowers already possess
- * Close supervision of credit by the group as well as the bank staff
- * Stress on credit discipline and collective borrower responsibility or peer pressure
- * Special safeguards through compulsory and voluntary savings to minimize the risks that the poor confront
- * Transparency in all bank transactions most of which take place at center meetings.

The Grameen Bank's project works exclusively in Bangladesh. Since its inception as a credit lending institution, it has expanded its services to include other financial and some non-banking products.

⁷¹ Grameen Bank, "Grameen Bank- Credit Delivery System," Grameen Bank, <http://www.grameen-info.org/bank/cds.html>, (accessed October 3, 2007).

The Trust

As a result of the growing need in the world for microcredit and those increasingly interested in the Grameen Bank methods for poverty alleviation, the Grameen Trust was created in 1989. It is a part of the “Grameen Family” and their role is to use “microcredit as a tool for fighting poverty.”⁷² They work by promoting and supporting Grameen Bank approach replications.

To date, Grameen Trust has “provided support to 138 replication partners in 37 countries in the world.”⁷³ They work through a product called Grameen Bank Replication Program (GBRP) which “supports and promotes poverty focused microcredit programs all over the world.”⁷⁴ They organize trainings, provide technical assistance and create discussions across the replication projects. Grameen Trust also helps fund and monitor some of the replications.

Grameen Trust implemented a new product for circumstances “where there is a need for immediate and rapid implementation of poverty focused microfinance programs.”⁷⁵ This product is called Build, Operate and Transfer (BOT) program and is when the Trust will directly set up and implement the project based on Grameen methodology.

⁷² Grameen Trust, “Grameen Trust,” Grameen Trust. <http://www.grameen-info.org/grameen/gtrust/index.html>, (accessed on October 3, 2007).

⁷³ IBID

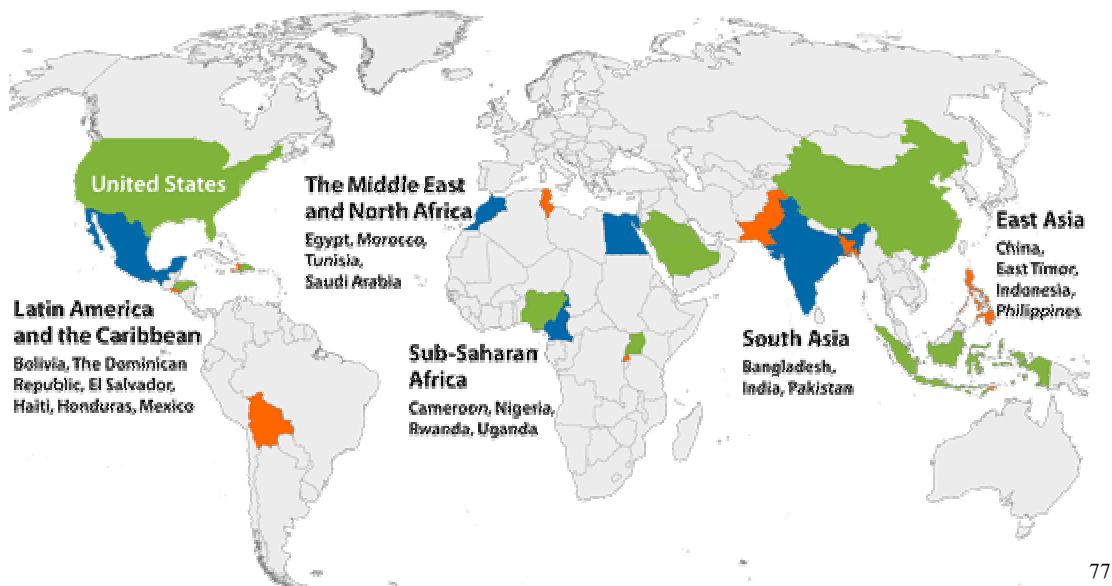
⁷⁴ IBID

⁷⁵ IBID

The Foundation

Established in 1997, the Grameen Foundation was created based on the philosophy of the Grameen Bank. As an organization to help speed the impact of microfinance, Grameen Foundation's role is to copy the success of the Grameen Bank internationally. Based in Washington D.C., they act as the umbrella organization to microfinance institutions that embody its visions and values.

The mission of Grameen Foundation is to “empower the world’s poorest people to lift themselves out of poverty with dignity through access to financial services and information.”⁷⁶ Through the use of small loans, financial services and technology, Grameen Foundation helps the poor begin “self-sustaining businesses to escape poverty.



⁷⁶ Grameen Foundation, “Who We Are,” http://www.grameenfoundation.org/who_we_are/, (accessed June 14, 2007).

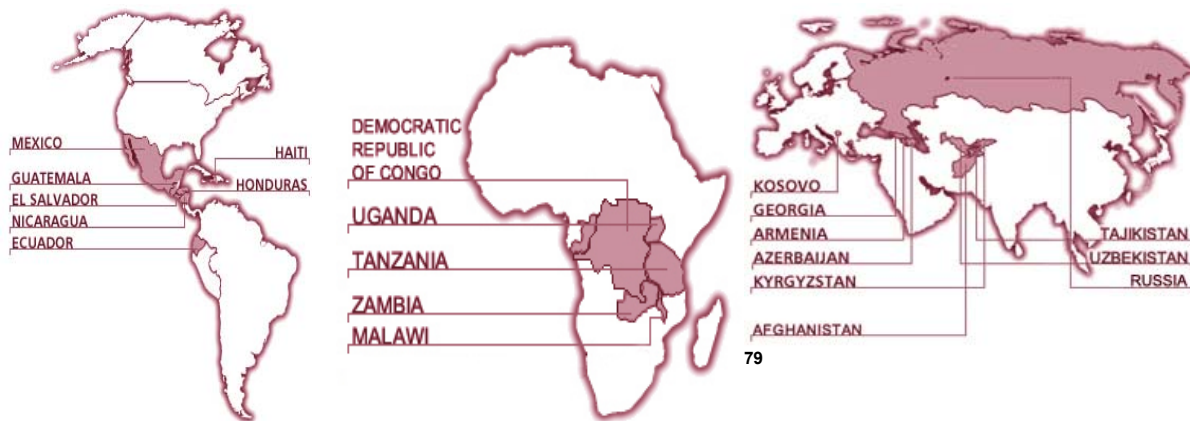
⁷⁷ Grameen Foundation, “Where We Work,” http://www.grameenfoundation.org/where_we_work/, (accessed June 14, 2007).

Working in four continents, Grameen Foundation works in technology and assistance. Although they work in alliance with the Grameen Bank, they are a separate entity.

Foundation for International Community Assistance (FINCA International):

Functioning in a similar yet different way than the Grameen Bank, FINCA international works to provide financial services to the lowest-income entrepreneurs around the world. Their mission is to help these people “create jobs, build assets and improve their standard of living.”⁷⁸ Founded in 1984 by John Hatch, FINCA built a different type of methodology that has become known as the “village banking” technique. FINCA works in 21 countries in Latin America, Eurasia, Central Asia, and Africa. Starting in Latin America and expanding around the world, FINCA programs are expanding fast around the world.

⁷⁸ FINCA International, “What is Microfinance? What is Village Banking?” FINCA International, http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2604299/k.FFD9/What_is_Microfinance_What_is_Village_Banking.htm, (accessed on June 14, 2007).



FINCA, similar to the Grameen Bank, believes in the group lending system. Grameen calls this system solidarity groups, which are self-created groups of five. This type of group allows for individuals to match and group with those seen as “safer” risks. FINCA, on the other hand, uses a method they call village banking. They compose groups of 20 to 30 people who independently come into the FINCA offices and sign their name on a list. Once a list is filled, the group is created. “Individuals borrow working capital for their microenterprises, and because they have little to offer for collateral, the group guarantees those loans.”⁸⁰ The loan size at FINCA International is similar to that of the Grameen Bank as well, varying between \$50 to \$100 per loan cycle and borrower.

ACCIÓN International:

⁷⁹ FINCA International, “Where We Work,” FINCA International, http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2591249/k.695B/FINCA_Country_Programs.htm, (accessed on June 14, 2007).

⁸⁰ IBID

In 1961, ACCION International was founded in order to address the desperate poverty of Latin American cities. Around the 1970s, ACCION came to the conclusion that their projects needed to tackle the major cause of urban poverty in Latin America: lack of economic opportunity. ACCION staff in Recife, Brazil observed the pervasiveness of the informal businesses and small-scale entrepreneurs (or microentrepreneurs). They began to wonder if by creating the opportunity to have access to credit at commercial interest rates microentrepreneurs could then pull themselves out of poverty. They started by issuing small loans (or microcredits). Within four years the organization had credited 885 loans.⁸¹

ACCION operates under the mission of giving “people the tools they need to work their way out of poverty.” They accomplish this by providing

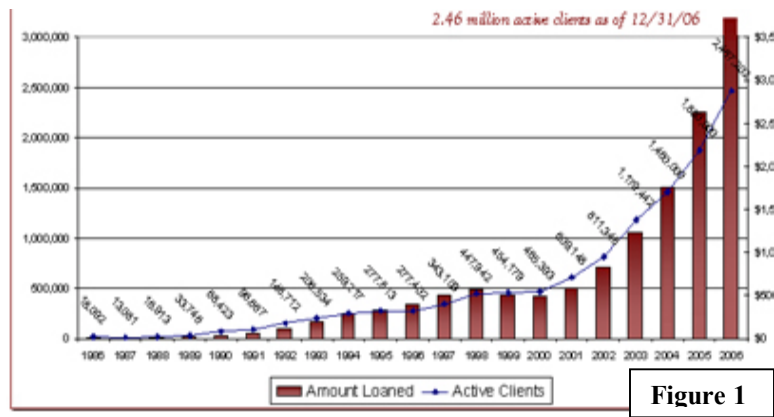


Figure 1

microloans and business training to poor women and men so that they can start their own businesses. ACCION’s goal is “to bring microfinance to tens of millions of people – enough to truly change the world.”⁸² This change is undertaken by means of an anti-poverty strategy that preaches permanence and self-sustainability.

⁸¹ ACCIÓN International, “Who We Are,” ACCIÓN International, <http://www.accion.org/NETCOMMUNITY/Page.aspx?pid=506&srcid=253>, (accessed June 14, 2007).

⁸² IBID

Figure 1 ACCIÓN International, “About Our Organization,” ACCIÓN International, <http://www.accion.org/NETCOMMUNITY/Page.aspx?pid=492&srcid=254>, (accessed June 14, 2007).

Today, ACCION, along with their partners and affiliates, operates in 23 different countries in Latin America, the Caribbean, Asia, sub-Saharan Africa, and in the United States. It is estimated that since 1997 ACCION affiliated programs have made \$12.3 billion in microloans to more than 4.94 million people, with a repayment rate of over 97 percent.⁸³

North America	South America	Africa
United States	Argentina	Benin
U.S. ACCION Network	Columbia Microcrédito (Banco Columbia)	PADME
Mexico	Brazil	Ghana
ADMIC	CrediAmigo (Banco do Nordeste)	Ecobank
Financiera Compartamos	Real Microcrédito (Banco ABN AMRO Real)	Mozambique
Central America	Bolivia	Tchuma
El Salvador	BancoSol	Nigeria
Apoyo Integral	Colombia	Nigeria
Guatemala	Cooperativa Emprender	Tanzania
Génesis Empresarial	FINAMERICA	Akiba Commercial Bank
Honduras	Fundación Mario Santo Domingo	Uganda
FINSOL	Ecuador	Uganda Microfinance Limited
Nicaragua	Banco Solidario	Zimbabwe
FAMA	CREDIFE (Banco del Pichincha)	MicroKing Finance
Caribbean	Fundación Ecuatoriana de Desarrollo	Asia
Haiti	Paraguay	India
SogeSol (SOGEBANK)	El Comercio Financiera	Unitus-ACCION Alliance for India
	Fundación Paraguaya	
	Peru	
	Mibanco	
	Venezuela	
	BanGente	

Figure 2

⁸³ IBID

Figure 2 ACCIÓN International, “About Our Organization,” ACCIÓN International, <http://www.accion.org/NETCOMMUNITY/Page.aspx?pid=492&srcid=254>, (accessed June 14, 2007).

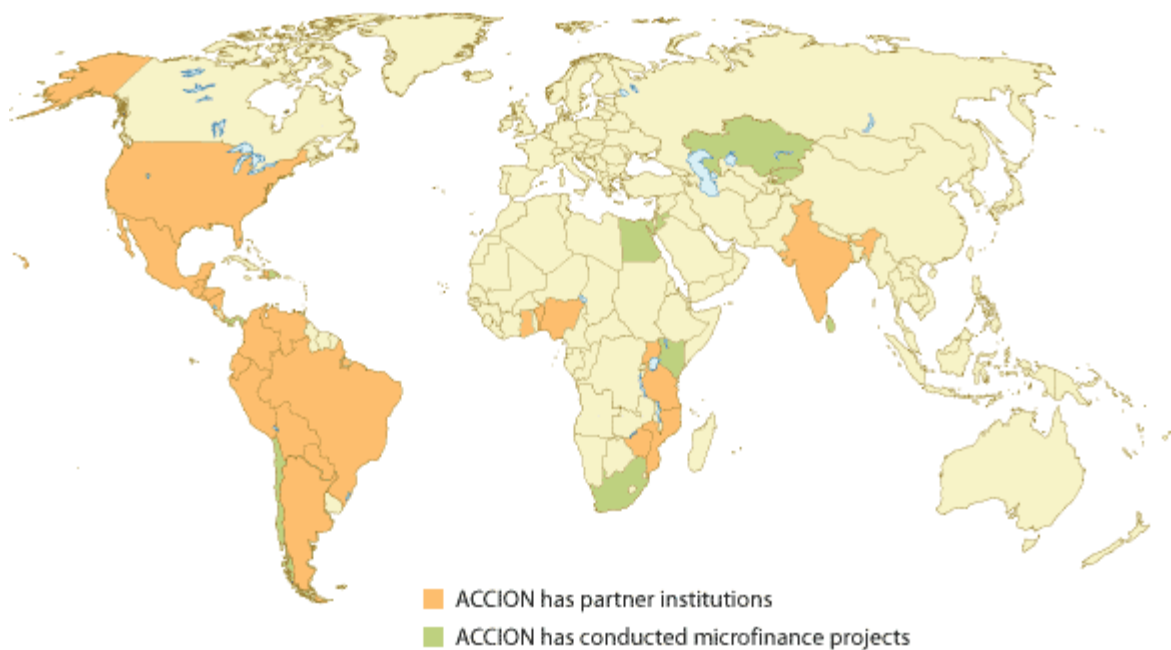


Figure 3

ACCION operates differently than both FINCA and Grameen. ACCION functions by means of partner programs, loans are given in small amount, for short-term repayment and interest rates that “reflect the cost of lending.” ACCION grants loans individually (if the borrower has physical collateral or a cosigner) and in groups. Although ACCION uses the group lending tool as well, most of their loans are given individually. ACCION also works mainly in urban location, which is very different from their primarily rural counterparts. ACCION acts as a consultant to their partner organizations around the world.⁸⁴

Figure 3 ACCIÓN International, “Where We Work,” ACCIÓN International, <http://www.accion.org/NETCOMMUNITY/Page.aspx?pid=223&srcid=492>, (accessed June 14, 2007).

⁸⁴ Anonymous Interview 1, ACCIÓN International, Personal Interview, 10 Oct. 2007.

Cumulative Statistics from 1997-2006 for ACCION Partner Programs:

Total Number of Clients Served:	4.94 million
Total Amount Disbursed*:	\$12.3 billion
Historical Repayment Rate:	97 percent
Women Borrowers:	65 percent

**Unrelated to number of clients served*

2006 Statistics for ACCION's Partners*	Latin America & the Caribbean	Africa & Asia	USA	Totals
Active Clients:	2.37 million	92,308	1,031	2.46 million
Total Amount Disbursed:	\$3.63 billion	\$93.4 million	\$5.65 million	\$3.7 billion
Active Portfolio:	\$1.97 billion	\$64.7 million	\$5.4 million	\$2 billion
Average Loan**:	\$829	\$701	\$5,197	

**Preliminary as of 12/31/06*

***Calculated as "average loan balance," the total outstanding portfolio at year-end 2006, divided by the total number of active clients. This figure indicates the average amount yet unpaid by each client. Figure 4¹*

Microcredit Summit Campaign (MSC):

Unlike the previous three organizations described in this thesis, the Microcredit Summit Campaign is not a methodology, credit or technology diffusing organization. In contrast, the role of the Microcredit Summit Campaign includes: “1) setting bold goals for microcredit, 2) measuring progress, and 3) removing barriers to achieving those

Figure 4 ACCIÓN International, “About Our Organization.”

goals.”⁸⁵ Through the success of two Global Microcredit Summits, the MSC has launched two campaigns.

The first of the two global summits took place in 1997 in Washington D.C., United States and was organized by RESULTS Education Fund. The goals for the summit were to bring together the international development community around microfinance and the understanding that expanding this movement “was essential to reaching the Millennium Development Goals and creating a just world.”⁸⁶ The idea of the summit was to provide a measurable goal for the microfinance field.

The 1997 Summit launched the campaign goal of reaching “100 million of the world’s poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the end of 2005.”⁸⁷ After the achievement of this original campaign goal, a second Global Summit was organized in November of 2006. At this Summit in Halifax, Canada, the second phase of the Campaign was launched. Two new goals for 2015 were endorsed at this meeting:

Working to ensure that 175 million of the world’s poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the end of 2015. Working to ensure that, from a starting point of 1990, 100 million of the world’s poorest families move from below US\$1 a day adjusted for purchasing power parity (PPP) to above US\$1 a day adjusted for PPP, by the end of 2015.⁸⁸

⁸⁵ Daley-Harris 7.

⁸⁶ Daley-Harris 1.

⁸⁷ IBID

⁸⁸ Daley-Harris 8.

The models

Grameen Bank and FINCA International both started by working in rural villages around the world. Their models were developed to work in specific conditions and then expanded into different settings and cultures. The Grameen model is possibly the best known model and the most replicated of all.

The creation of the “credit discipline is one of the most outstanding achievements of the Grameen approach.”⁸⁹ Dowla and Barua concur with this statement and continue, “the bank and its success have revolutionized how credit is delivered to the poor. Over the two decades of its existence, the bank has standardized its products and its credit delivery mechanism.”⁹⁰ The Grameen methodology is not a cure and should not be used as best practices. However, there may be a list of good practices, ones that if used flexibly can help other institutions build a locally relevant approach.

Dunford argues that there can still be “sound practices” that fit a particular organization or situation, but best practices can be dangerous. Rutherford agrees with this. He defines a set of “key characteristics of good microfinancial products. Once these have been established, it will become possible to define more exactly the kind of institution that will be required to deliver such products.”⁹¹ In other words, these sounds

⁸⁹ Hans Deiter Seibel and Dolores Torres, “Are Grameen Replicators Sustainable, and Do They Reach the Poor? The Case of CARD Rural Bank in the Philippines,” *Rural Finance Working Paper No. B1*: (1999) 2.

⁹⁰ Asif Dowla and Dipal Barua, *The Poor Always Pay Back: The Grameen II Story*, Bloomfield: Kumarian Press, 2006: xiii.

⁹¹ Rutherford 47.

practices or key characteristics to a microfinance project will help an institution work more effectively in any environment without blueprinting.

Grameen Bank, in the efforts to better work with a changing landscape of poor, began working in 2001 on a new model that became known as Grameen II. This new approach was created as result of the acknowledgement that “the financial needs of the poor are varied and changing, and an effective financial institution has to devise products that will meet these changing needs.”⁹² The creation of Grameen II forced Grameen workers find innovative ways to approach a changing population of poor. “Grameen Bank itself has modified its program and products over the years to meet the changing needs of its clientele adding many new loan products, savings products, pension schemes, insurance schemes among others.”⁹³

The Grameen Bank, after establishing themselves as a leader in the microcredit field has established separate entities within the “Grameen Family” to provide a wide range of services. Some of these innovative services include Grameen Telecom and Grameen Shikkha/ Education. Grameen Telecom, for example, has a product called the Village Phone, which provides modern telecommunication services to rural poor in Bangladesh. “A Grameen Bank member obtains ownership of the phone under the lease-financing program of the bank and provides the services to the people in the adjoining

⁹² Dowla and Barua xv.

⁹³ Morshed 25.

area, covering both outgoing and incoming calls.”⁹⁴ The phones are then billed along with regular collection of bank dues.

Dowla and Barua explain that “Grameen Bank is a dynamic organization. At any moment in time, the bank is involved in two or three major initiatives to improve its model. It is constantly fine-tuning and changing its model of financial service delivery in response to changes in the field.”⁹⁵ If this statement is true, then the original stagnant model of microcredit no longer exists in the larger microcredit/microfinance institutions. They argue that the role of the Grameen I (the original Grameen model) was to “prove to a skeptical world that the poor are creditworthy and bankable.”⁹⁶ The role of Grameen II, on the other hand, is to prove that the Grameen can be culturally relevant and work appropriately with the changing population.

Grameen Innovations under Grameen II.⁹⁷

- Ramping up voluntary savings mobilization, including open access and contractual savings accounts
- Taking advantage of unmet savings needs of the poor by providing avenues to save for retirement and other long-term needs
- Making it easy for the members and nonmembers to save by providing secure and diversified savings products
- Taking advantage of the bank’s legal standing to provide savings services to nonmembers and using this medium to achieve self-sufficiency and secure funding for loans
- Getting new branches to be self-reliant as soon as possible and turning them into profit-making centers by using savings deposits from nonmembers to disburse credit
- Establishing loan insurance program for the borrowers and their husbands
- Encouraging individual loans and individual savings

⁹⁴ Grameen Bank, “Grameen Telecom,” Grameen Bank, <http://www.grameen-info.org/grameen/gtelecom/index.html>, (accessed June 14, 2007).

⁹⁵ Dowla and Barua xiv.

⁹⁶ Dowla and Barua 248.

⁹⁷ Dowla and Barua 253-255.

- Recognizing the vulnerability of the poor and allowing them a temporary reprieve to reschedule loan in arrears by using flexible loans
- Making incentives to repay transparent by tying individual loan ceilings with repayment records and saving behavior
- Turning the group into a vehicle for positive feedback by rewarding the borrowers with larger loans based on the performance of the group, center, and branch
- Making regular attendance a condition for increased loan size and penalizing members for missing meetings beyond a certain number by reducing their loan ceiling
- Providing large loans to borrowers with higher investment capacity to hasten the process of moving out of poverty
- Using internal resources to increase membership
- Aggressively monitoring the system by collecting detailed information and sharing it within the organization
- Creating an early warning system by examining the quality of loans after six months
- Topping up loans after a clean record of repayment for the first six months of a loan
- Using material and moral incentives to get staff on board for large-scale change in the organization
- Using public recognition through the “star system” to reward good performance by the staff
- Using system-wide competition to improve performance at all levels of the bank: branches, areas, and zones
- Accepting beggars as member in a special program to reach out to the destitute
- Establishing loans to fund the higher education of the borrowers’ children
- Outsourcing data management from the branches to a sister organization by creating Area Information Management Centers (AIMCs)
- Computerizing the audit system by enabling the auditors to use pen drives (i.e., flash memory devices) to collect data from AIMCs for pooling and analysis

A non-model model

The ACCION approach requires more attention. It was the one traditionally non-methodology model example of the pioneering institutions. ACCION has changed their initial organizational focus and has become a force for innovation and transformation in

the microfinance field. The expansion of the industry and organization in general has led to a refocusing of the ACCION mission.

ACCION, like Grameen and FINCA, started off on the common microcredit mission of providing credit and loans to the very poor. Throughout the evolution of the organization, however, ACCION has innovated the field by taking on an approach to microfinance that is very different from that of others. They serve as a consultant rather than acting as a direct product and loan-giver. Unlike their counterparts in the industry, ACCION works almost exclusively with partner organizations that are already established commercial banks. Their motivation for this is based on building permanent and sustainable credit systems for the poor. These partners provide the country experience and the desire to expand their services to those in need.

ACCIÓN has also begun to loan primarily to individuals and has almost completely abandoned the group lending technique. This is a result of innovation and learning as the field has expanded. Since ACCIÓN partners with larger commercial banks, they tend to work only in urban settings, and because urban settings are more inclined to have sophisticated markets, containing more inclusive financial systems, with more opportunity for people to borrow, then the more access the poor have to finance and the less successful group lending methodologies. As a response to this financial landscape and local conditions, ACCIÓN works mainly with individual loans. As a response to need, ACCIÓN also offers different forms of finance. They work in microfinance, microcredit is only one of their products.

Another way that ACCIÓN works differently than the other MFIs is that they believe that in order for the project to be sustainable, it must be permanent. This means that the organization funding the microfinance is not donor reliant and uses what Marguerite Robinson refers to as the “financial systems approach.” She argues that “large-scale sustainable microfinance can only be achieved with a financial systems approach.”⁹⁸ In other words, ACCIÓN partners with regulated financial institutions. This can be either a deposit taking institution, an entity with a banking license, a financial company or be a regulated microfinance bank.

This is a change for ACCIÓN who used to work mainly with NGOs. Today, however, the majority of their partners are regulated institutions. By working with commercial banks that are established and regulated, ACCIÓN is able to adapt to local conditions and the conditions of the partner they are working with. This allows them to work in local conditions and not impose a new structure on a functioning system.⁹⁹

ACCIÓN also believes that by working with regulated, sustainable financial institutions, the institutions are not restricted in their capacity to reach scale. They have access to investments and capital markets and because of this, are able to expand quickly. They contest that this also allows them to use innovations more easily than would a donor-focused organization.¹⁰⁰

ACCIÓN over the last 26 years has adapted their approach to microfinance and by doing so has also changed their goals. They have moved away from an impact analysis

⁹⁸ Robinson 2.

⁹⁹ Anonymous Interview 1, ACCIÓN International, Personal Interview, 10 Oct. 2007.

¹⁰⁰ IBID

of looking at welfare and poverty alleviation to looking at access as a primary goal. To clarify, researchers looking at the evaluation of impact in microfinance define three overarching goals of institutions; empowerment of the poor and particularly women, welfare benefits (meaning the ability of the clients to provide education and healthcare services and be able to pay for education of their children) and access of financial services to the poor.

By looking at the motivations and goals of the institutions, one can better define the methodologies the organization should and probably will use. “This approach calls for everyone to be very clear, very explicit about their objectives.”¹⁰¹ Organization whose primary motivation for microfinance is to provide the poor with access to financial service and systems will most likely use numbers and quantitative data as a principal source. By contrast, however, an organization whose goals reflect a desire to reach the poorest of the poor or to measure impact by welfare benefits will most likely use the poverty lending approach and a methodology similar to that of the Grameen and FINCA.

ACCIÓN’s attention to access as their goal has a logical connection to the financial system’s approach to microfinance. Since the private sectors look for efficiency and cost-effective programs, their focus on numbers as a tool for analysis is rational. It is also easy to see how with a goal looking at numbers ACCIÓN’s approach would partner with the private sector and the more financially stable institutions to complete their objectives.

¹⁰¹ Dunford, *Sound Practices*, 10.

The Campaign

The Microcredit Summit Campaign sets their goals after consulting with the industry leaders and participants in the campaign. They intentionally set bold and audacious objectives in order to drive the field to reaching more and more poor people.

Some of the focus of the Campaign may be misunderstood, however. Although the wording of the goals are set to push and drive the industry to achieving and reaching as many people as possible, it also encourages organizations and MFIs to be socially responsible. There is a fear that as the microfinance movement expands and is proven to be profitable, then the mission of microfinance in general drifts as entities become involved that are focused around profit as opposed to client well being.

The Microcredit Summit Campaign deals with this by encouraging MFIs to focus on making sure that microfinance reaches the poor who are systematically left behind. The goals of the MSC are clear. They argue that microcredit and microfinance need to start with the poorest of the poor (those living on less than a dollar a day as determined by purchasing power parity) because they are the marginalized people of the world. A move away from this population would be considered a failure of development. These people are the focal point of the Campaign. They persuade lenders and institutions to follow this focus by the publishing of their “core themes.”

The themes can be read as a guideline for institutions willing to become involved in the Campaign’s mission. The four themes of the Microcredit Summit Campaign are: reaching the poorest, reaching and empowering women, building financial self-sufficient

institutions and ensuring a positive, measurable impact in the lives of clients and their families. The themes may also be considered best practices for microcredit and microfinance institutions.

Although the Microcredit Summit Campaign does not promote a specific methodology, they do believe it is important to educate the public about quality projects. They highlight certain pieces from specific methodologies focused on social impact and alleviating global poverty. The hope is to help encourage others to work in similar efforts, learn from each other and look at developing strategies to share what is considered good practices as opposed to best practices.

MSC encourages innovation by drawing attention to service expansions, technology advancements and other achievements in the microcredit or microfinance field. Some of these innovations in microfinance might include and are not limited to “the development of the full range of services and products that poor people want and need – flexible savings, contractual savings, loans for education and health, microinsurance and lines of credit.”¹⁰²

¹⁰² David Hulme, “Is Microdebt Good For Poor People? A Note on the Dark Side of Microfinance,” *Microfinance- Evolution, Achievements and Challenge*, Ed. Malcolm Harper, London: ITDG, 2003: 157.

CHAPTER FOUR: ANALYSIS AND INNOVATION IN MICROFINANCE

After a review of the literature and in depth research on the institutions participating in the microcredit/microfinance field, some key points must be discussed. Chapter four will analyze the research findings of this paper and will begin to pull together conclusions. This chapter will bring together all of the previous chapters and will look more specifically at what my research findings have been.

I will first look at the concept of innovation in microfinance as it relates to what others have said and what is actually happening in the field today. I will specifically address the question of how microfinance is able to maintain innovation. The following section will review specific innovations in the microfinance field and how they are being used. This section will also delve into an analysis of what these innovations mean for the microcredit/microfinance world.

How can microfinance maintain innovation?

Why do we need to be innovative? Why is blueprinting a problem? As Dowla and Barua explain,

Poverty...is a dynamic phenomenon. The process through which people become poor changes, as do the means to alleviate poverty. Providing financial services to the poor so that they can use their ingenuity to get out of poverty on their own is an important and effective means of poverty

alleviation. The means used to reduce poverty had to be changed and refined constantly to keep up with changes in the poverty dynamics.¹⁰³

Dunford makes the argument that, “the microfinance movement needs to remain for some time to come a ‘learning organization’ or a movement of experiments in sound practices geared to the different organizational strategies and situations.”¹⁰⁴ His statement is a clear answer to the where the future of microfinance should lead. The institutional learning *and* the innovations within the field should never stop. However, according to DiMaggio and Powell, the process of innovating only occurs in the early stages of an industry. How then can Dunford’s movement of experiments continue and maintain itself?

I suggest three theories to explain how innovation is able to continue; transition into a new field, the exceptional nature of microfinance, and growing competition. These theories are explained in more detail below.

Theory 1: Transition to a new field

Perhaps because the transition from the poverty lending approach or the microenterprise era to the financial services approach or the microfinancial services era is a recent event, the microfinance field has been able to maintain innovation. The microfinancial services industry is still in its early stages. In other words, if we have truly moved out of the microcredit period and adopted a microfinance approach, then the

¹⁰³ Dowla and Barua

¹⁰⁴ Dunford, *Sound Practices*, 7.

industry is still in the research and development stages of the front-runners. We may be still attempting to standardize the field. This is, as Dowla and Barua put it, “the story of this tectonic shift in the field of microfinance.”¹⁰⁵ The question then becomes, if we are still in the research and development phases of the field, then how do we ensure that innovation continues past these phases? This question, however, will not be answered in this thesis.

Theory 2: Exceptional Nature of Microfinance and How Microfinance is Using Local Structures

If the movement has not, as I say above, transitioned into a new field and is not in the early stages of development, then maybe the exceptional nature of the field has allowed for innovation and institutional learning to continue. I argue that purely by the exceptional nature of the microfinance/microcredit fields can this innovation persist.

It seems to me that as a result of growing criticisms in the field of microcredit that institutions have become innovative in their approaches to microcredit and microfinance. They are beginning to look more closely at local conditions and populations and attempting to create products and services that will work best for the specific circumstances and peoples.

In place of the careful and time-consuming phases of research and development on the “financial landscape” of local structures, institutions have found new ways to work in and with local conditions and systems. They do this not by using best practices,

¹⁰⁵ Dowla and Barua xv.

replicated models or set processes as originally hypothesized. Instead, they have entered into new locations by partnering and teaming with either locally established institutions (for example; banks, NGOs, governments, etc.) or with local philanthropists and clients.

The partnership between these entities takes different forms. The most common relationship currently existing uses international microfinance institutions as exporters of technologies, microfinance expertise or knowledge and funds to their local collaborators. This is the relationship used by Grameen Foundation, Grameen Trust and ACCION International.

Theory 3: Competition

Another reason the microcredit and microfinance fields are able to be innovative is the growing competition of institutions entering the fields. As more and more institutions enter the field in similar markets they will attempt to create a product or service that the other institutions are not offering in hopes of attracting more clients. According to John Hatch, the founder of FINCA, “such competition and innovation is good news for the poor and poorest clients because their range of choice is growing steadily wider...such behavior will stimulate even more competition and innovation.”¹⁰⁶

Competition is taking place on the global level and at the intimate local level. All around the world new and different methods are moving into villages and cities preaching a complicated array of services they are calling microfinance.

¹⁰⁶ John Hatch, “Innovations From the Field: A Daring Brief Summary of a Huge Phenomenon,” Working Paper (2002): 3-4.

What innovations have occurred and how does this affect the movement?

Innovations have occurred in all aspects of the fields. Whether through technology, access to the poorest, expansion of services or commercialization, institutions are expanding their focuses and their networks of influence to better serve the poor. Each institution has been finding niches for themselves in the development of the fields. ACCIÓN, for example, has defined themselves as the champions for microfinance commercialization, while Grameen Bank and Trust are known for their innovations in reaching the poorest of the poor with expanding services and technologies.

The results of these innovations have led to both a separation in the field and a coming together all at the same time. It has created innumerable discussion on definitions and directions of the field. It has also produced animosities and friendships. Arguments have emerged about whose approach better suits the needs of their clientele and their region, each organization claiming a focus on local needs and wants. Networks have built relationships with existing local banks, NGOs and local savings clubs to work better within the local structures.

The dangers exist in the separation of goals in the microfinance movement. As word has gotten out that microfinance can be a profitable venture, institutions have entered the field hoping to capitalize off this new market, the poor. Increasing interest rates and establishing microfinance banks whose sole appeal is in creating profits for themselves as opposed to the people they are banking to have set off red flags in the

development community. The push for rapid expansion can be hazardous for microfinance as it exposes the poor to profit-seekers instead of institutions with social impact agendas and helping the marginalized as their objectives.

The microcredit craze has created a phenomenon where donors giving to the development cause are much more likely to grant funds to organizations working with microfinance objectives. This, however, has led to poorly developed and monitored projects around the world. The Goldin Institute has taken on the challenge of researching this specific problem. “As debates over the pros and cons of microcredit rage and donor support encourages the rapid adoption of micro-finance strategies not just in Bangladesh but around the world, it is critical to reevaluate the impact of microcredit at a local level.”¹⁰⁷ The reevaluation and impact analysis is the next stage to the microcredit/microfinance movement.

¹⁰⁷ Goldin Institute, “About Microcredit,” Goldin Institute, <http://goldininstitute.org/index.cfm?n=2&sn=5>, (accessed March 17, 2008).

CHAPTER FIVE: CONCLUSION AND KEY PRACTICES IN MICROFINANCE

Because of globalization and the ever-easier access to information, methods and strategies can be used faster and effortlessly. However, this process also allows us to see the trouble we are creating by moving too quickly and acting without prior thought. Poverty alleviation has become a trendy and popular idea that is bringing governments, international agencies, non-profits and for-profits jumping onto the bandwagon. Interests and objectives may vary drastically providing for outcomes across the board. Within sectors this has become true as well. Microfinance has not escaped this reality.

In the interest of creating a long term, sustainable project that will continue to function and not withdraw after a couple of years leaving the poor worse off than before, a necessary stage of research, development and innovation is essential. It is easy to replicate a methodology in whatever context and let it work for a short time. But in the long-run interest of the community and the poor it is essential to assure that the methods and model being used to provide the credit will be around years down the road. Microfinance institutions must get involved with a “clear commitment to provide permanent, quality services to their clients. Anything less is a recipe for disaster.”¹⁰⁸

When done right, however, microfinance has the ability to make a massive difference in the lives of the people it is working with. It can affect and alleviate much of poverty on a local level. When brought globally and applied broadly in many different

¹⁰⁸ Wright 78.

places around the world with one technique or methodology, problems arise and criticisms emerge. In the interest of maintaining a microfinance movement that truly is able to make the difference it preaches, initial surveys and research on existing social structures and financial constructions are mandatory. The initial research must then be complimented with continued impact analysis and evaluation to ensure the project is being implemented appropriately and creating opportunity for the borrowers to build a better life out of poverty.

A split can be predicted for the future of the microfinance field; not simply a split of those who get involved in the movement for profit, but also a separation of those that focus themselves on defining their success in numbers and those who will focus on showing the achievement of making a strong social impact. This tension is pulling the field into many directions. Because of this divide, studies will continue to look at this subject and attempt to respond to why this is happening.

According to Robinson, this split is between the financial systems approach and the poverty lending approach and is based on the concept that the set up of an organization matters for sustainability and access. This idea, however, shows that when evaluating any organization or institution a review of the goals and motivations is essential.

Along with the split, we are also, at the same time, seeing a reunification of the field. Different institutions with a wide range of goals are moving towards the same or at least similar services and products. An organization with an institutional mission of reaching as many people as fast as possible is leaning towards commercialization in

microfinance in order to access people faster. They will offer as many services as the local banking institution is currently offering other wealthier clients, but on a smaller scale.

On other end of the spectrum are organizations whose focus is on poverty alleviation. Their goal is to make a profound social impact on their borrowers and to alleviate poverty through this social impact. These organizations focus on small groups of borrowers (mainly women) by providing the services needed and requested by their clients. They have begun offering more and more services and technologies to their stakeholders as a result of these requests.

Both the institution with a focus on access and the organization with a focus on poverty alleviation and social impact expand their services from a purely microcredit outreach to a more complex microfinance approach. Each has separate and specific goals and interests for their reasoning, but both end up with a similar product. The difference is found by looking back at the institutional or organizational goals, missions and objectives. The problems lie in the miscommunication of those goals for both clients/borrowers and donors/funders alike.

I do not believe, however, that we have seen the end of replication. The process of replicating in microfinance will take on a different form than the blueprinting of the previous microcredit era. The conversation of best practices is very much alive in microfinance. Although practitioners and policymakers are attempting to fix their language to reflect more of a “sound practice” idea, the connotation is around a key set of practices that can be applied across the board.

As the concept of poverty continues to change and shift around different populations and different settings, the idea of how to successfully alleviate this poverty must adapt as well. This adaptation takes its form in innovation and transformation. It is essential that what we consider “best practices” do not interfere with the ability to help and serve these populations.

This message can be applied more broadly than just simply to microfinance. Should industries, whose standards are based around a changing population use best practices? I argue that the concept of best practices, modeling and blueprinting should stay within the private, profit-seeking sectors. Perhaps sound practices and key practices may be used if they are looked at as suggestions are opposed to conditions.

In regards to an organizational focus on numbers, with the growing need for substantial amounts of funds and monies, a focus on numbers is not only inevitable, but also required in most cases. As more and more companies, banks, organizations, international agencies and individuals around the world enter into the microcredit/microfinance sphere, missions and goals become so varied that it is harder to compare and contrast the industry.

A tool must be created that allows the institutions and organizations to use qualitative research results as their form of evaluation. Organizations like the Goldin Institute have been researching methods to achieve this goal. In order to fully develop an emphasis on empowerment and social impact, evaluation tools that measure these qualities must be constructed and obtain acceptance as affective ways of gauging results.

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