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Microfinance With Nonformal Education an Approach for Effectiveness and Scaling up Outreach

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MICROFINANCE WITH NONFORMAL EDUCATION

**AN APPROCH FOR EFFECTIVENESS AND SCALING UP
OUTREACH**

Submitted to

Professor Dr. David Evans

As a partial fulfillment for the requirement for

Master's Program

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Chapter One

INTRODUCTION

Any discipline when it gets some popularity also becomes the subject of a constant review and even critical assessment. This can be positive sign of its growth and potentiality. It draws more attention. Pressure starts mounting up for ongoing improvements within its own framework. If it cannot keep it up with the pressure that energy will be diverted to development of alternatives. This is very natural. Now Microfinance is also going through this. It has become one of the important components of development initiatives. Over time microfinance has become very successful. At the same time, it has also generated some challenges.

Statement of problem

Broadly the challenges of microfinance can be categorized into three areas—outreach, effectiveness, and diversification of delivery methodology. However all of these are also interrelated. One can be the cause or the result of the other. Therefore a good microfinance program should try to address issues related to all three challenges.

Outreach is two dimensional—horizontal and vertical. The horizontal outreach is very much limited. The demand for microfinance is very high. Supply is marginal. Consultative Group to Assist the Poorest (CGAP), a consortium twenty-nine bilateral and multilateral donors that support microfinance industry, has estimated that the demand will be 12.5 billion by 2005 just to reach 10 percent of the needy micro-entrepreneurs. On the supply side, however, current portfolio is \$2.5 billion (CGAP cited by Woller, Dunford & Woodward, 1999, p. 33). If the

target set by microcredit summit in 1997 reaching out 100 million poor families by 2005 is to be met, multifold increase in supply will be needed. As of the end of 2001, only 19 percent of the target was achieved. 81% is yet to be met (Gibbons & Meehan, 2002, p. 5). It shows that the gap is huge already. It is more alarming because of its widening trend. Similarly vertical outreach has also become a substantial issue of microfinance. Concerns are growing that microfinance has not reached the hardcore poor though it was started off to benefit them.

Debate about effectiveness is getting hotter in the contemporary microfinance programs. Questions are being raised whether microfinance programs are really effective in helping the poor improve their status. One of the arguments is that it has deviated from its original purpose—poverty alleviation. Focus has been shifted more to the performance of the financial intermediaries and their sustainability away from the quality of life of the clients. Empowerment of the clients has become a prominent issue especially in the context that the microfinance programs target women. Poor women are widely considered as unempowered. Some feminists strongly argue against the approaches adopted by microfinance programs. Their position is that microfinance has made their lives more miserable than making it better. Mayoux (2002) presented some examples of such experiences from Africa in a One World Action Conference

Delivery methods present another challenge. The potential clients are very diverse in terms of their needs for financial and non-financial services. It is further complicated by their locations like urban and rural. Needs of the poor in urban areas are very different from that of the rural areas. Most of the microfinance programs concentrate in the densely populated areas that are more accessible and near to the market. They overlap each other in those areas resulting lack of

programs in others. Different methods of delivering services required to meet the needs of the various segments based on their socio-economic conditions and geographical realities are virtually non-existent. In other words, services and products are not diversified enough to reach out different populations.

Argument

In search of possible ways of addressing challenges being faced by microfinance, this paper argues for incorporation of nonformal education and literacy approaches into microfinance. Blending nonformal education with microfinance could help it better meet the challenges. This paper tries to explore and present how that is possible by presenting a case study, which had achieved a greater outreach and effectiveness.

Demand for microfinance is very high. Supply is too low. The gap is huge. Michael Chu, the President of ACCION International calls it an "absurd gap" (Chu cited by Robinson, 2002, p. 2). There is an urgent need for expansion. However it is not that easy. One of the immediate obstacles of expanding outreach both vertically and horizontally is lack of resources to train a large number of clients. Microfinance programs cannot be conceived without some training for the clients since it is about handling money. It cannot just give loans away. Doing it in a systematic way requires a good training for borrowers. A good training also demands more resources. Moreover, the conventional training used in microfinance means face to face contact. It is given by an "expert" to a "recipients" on what and how to do things. Such training obviously has its own limitations. It cannot be scaled up as needed because of the lack of adequate human, material and financial resources, and time. Therefore most of the microfinance

programs offer just a bare minimum training especially in the beginning with hardly any follow-up. An example, Grameen Bank runs Compulsory Group Training (CGT) for the prospective members for "an hour a day for a minimum period of seven days" (Innovation and Transfer cited by Grameen Bank, 2002a, para. 6). To stick with such a minimal training is not by choice but because of the lack of resources.

Effectiveness of microfinance programs constitutes a wide range of characteristics. At the client level they could be empowerment, building confidence and increasing participation in decision making. Improvement in health conditions, increase in the number of school going children and increase in income are also some other to add to the list. Recovering cost, expanding outreach, becoming efficient, diversifying products and services could be at the level of microfinance intermediary institutions (MFIs). Most of the microfinance programs focus only on economic financial indicators like increased income, repayment rate, cost recovery, etc. For them attributes such as empowerment and confidence building are only the byproducts. Naturally that is what can be expected out of any microfinance programs that deliver only the financial services without other social interventions. However it should not be forgotten that the very purpose of microfinance is poverty alleviation. Poverty is not just lack of money, it is much more than that. Johnson and Rogaly discuss poverty as powerlessness. "Powerlessness can be experienced in a variety of situations: within the household, as a result of differences in gender and age; as a result of caste, ethnicity and wealth," they suggest (Johnson & Rogaly, 1997, p. 10). If poverty is the result of differences, discrimination and oppression mere delivery of financial services will not alleviate it. In other words the conventional microfinance programs cannot be effective in that situation. Such programs also need to pay attention to qualities like empowerment and self-

confidence in addition to financial indicators like increased income. Literacy and education are good ways to achieving those as used in Women's Empowerment Program of Nepal which is presented later as case study.

Moreover, effectiveness of microfinance is also measured by the return made by the borrowers on the money invested in microenterprises. It is related to profit. Borrowers would not know exactly whether they are making profit or not if they do not keep good records of their business. Therefore up to date record keeping is a basic skill they need. For that they need literacy skills first.

Methodology

This paper starts with an overview of microfinance and its traits. What its major typologies are. It explores how nonformal education or literacy is used in microfinance. Then it looks into a case study of a microfinance program that used literacy-led approach. It discusses aspects of the program that were different from the mainstream microfinance programs due to use of literacy-led approach.

Since the purpose of the study is to explore how use of nonformal education, particularly literacy can help addressing the challenges being faced by microfinance—effectiveness and outreach, the paper uses heuristic case study method (Rossman & Rallis, 2002, pp. 11-12 of chapt. 4). Various aspects of the case program—Women's Empowerment Program (WEP) of Nepal—are presented with the purpose of making some reforms in the current microfinance practices or start a new approach. Data to support the position are primarily drawn from the author's own experience

through involvement in WEP program from its conception, development of *Women in Business* (WIB) approach on which WEP was built up later. Studies carried out by external consultants are other significant sources of information. Similarly various websites and interviews done by independent sources are also cited as needed.

The conceptual framework for the paper is derived from various literatures and research carried out by other people. As suggested by the title, this paper has tried to bring together microfinance and nonformal education, two different initiatives of development. Effort is made not only to bring them together but also to blend them into one so that one can benefit from the other. Works of the other people widely available in the form of books, websites, journals, newsletters, articles are used to support the ideas as needed.

Chapter Two

MICROFINANCE

What is Microfinance?

The root of the microfinance goes back the system of moneylenders that have existed in all societies. In some parts of the world this is still the primary source of financing where other credit services are not accessible. The concept of this informal practice was later copied by development programs and introduced as microcredit. Microcredit however is very different from the traditional money lending practice. It is more organized and institutionalized. Primarily it provides credit for productive purpose only. That is one of the reasons why moneylenders are still in existence. They provide credit almost for anything as long as the borrower is credit worthy in their eyes.

Microcredit programs are important for the poor because they provided low interest credit in different than the local moneylenders. Moreover microcredit provide loans to those who do not have anything to produce for collateral other than their trustworthiness. Group guarantee was introduced as a mechanism to check the trustworthiness. This provision helped microcredit serve poor people who otherwise would have no access to credit. Considering the benefits of peer lending method, and its effectiveness microfinance also continued using it.

Microfinance has evolved as an approach to economic development. Rutherford says that it is in its adolescence stage (2000, p. viii). It has become increasingly popular all over the world especially among the low-income and poor populations. This is built upon the previous

approaches such as microcredit and microenterprise finance. Often time they are used interchangeably. Microcredit and microenterprise provide access to credit. Microfinance offers many other financial services in addition to the access to credit. Therefore it is broader. Rhyne calls microfinance the "financial system approach" (2001, p. 6). The modern day microfinance programs have started providing more services like insurance and payment other than savings and credit (Microenterprise Access and Banking Services, 2002, online). Wright suggests that a microfinance approach provides quality and flexible financial services to meet the needs of the poor (2000, p.7). On the contrary, Khandker argues, "Microfinance refers to the loans and savings services provided by microcredit institutions and programs. Some microcredit programs also provide [meaning that microfinance does not] services such as training and organizational help" (1998, p. 14). However many others like Berenbach and Churchill do not support that. They hold the opinion that microfinance is expanding its services. New financial technologies are producing the microfinance revolution in the 1990s just the way new agricultural technologies spawned the green revolution in the 1970s and 1980s (Berenbach and Churchill cited by Robinson, 2000, p. 5)

The following citations elaborate what microfinance means:

Microfinance refers to small-scale financial services – primarily credit and savings– provided to people who farm or fish or herd and who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban. Many such households have multiple sources of income. (Robinson, 2001, p.5)

Microfinance is the provision of a broad range of financial services such as – deposits, loans, payment services, money transfers and insurance products – to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards." (Bangko Sentral ng Pilipinas, 2002, para. 1)

One thing is common in all these definitions, that microfinance is the provision of financial services to the low-income populations. Here the combination of two phrases, "financial services" and "low income" are important. One alone cannot be a microfinance without the other. What do the financial services include? They can be range of things from savings and credit to insurance. Similarly, the range of low income also depends on the context. The third citation above touches upon the settings like urban and rural. Low income in urban areas could be different from the rural areas. Likewise, it could also be different in developing countries and developed countries, but all countries do have low-income population. Although microfinance programs are more pertinent to the developing counties as implied by Robinson (2001, p.5) they also exist in developed countries. Working Capital and ACCION are examples from the US.

Since microfinance provides financial services to low income people, obviously its objective is to increase their income. All the citations above also reinforced that. However the last one goes

beyond that onto improving their living standard. This is relatively a new dimension added into microfinance. Traditionally microfinance has focused primarily on increased income. That increased income is also measured at the institutional level of the intermediary lending agency, not at the individual borrower's level. It is assumed, as long as the clients are making repayments that their income is increasing. This does not truly represent what microfinance means. Microfinance is a way to improve quality of life of the people providing them financial as well as other services such as literacy, education and health, which are directly related to their financial performance.

Features of Microfinance

Some features such as services for poor are already captured by the definitions above.

Microfinance provides access to finance for poor and people in rural areas where commercial financial institutions cannot do so. It will be costly for big institutions to operate at grassroots level. Microfinance, on the other hand, becomes effective and appropriate at that level because of its size of investment and capacity. It cannot handle big loans. Depending on the type of microfinance models, some generate the funds for financing themselves in the form of savings. This is called savings-led approach. On the opposite, credit led approach primarily accesses outside source for building its fund. They also collect savings. However the proportion of their savings could be nominal. It depends on the maturity of the program. In other words, how long they have been in it. In either case both savings led or credit led approaches make line of credit available to their clients. Mostly the clients are women. Loans are usually small and typically for working capital or for productive purposes only. The procedure for granting the loans is very simple. Potential borrower produces a simple business plan. Group appraises the borrower and

investment scheme. This is considered as effective way of screening the borrower because the clients, usually women, know each other better (Kevane, 1996, p. 5). Often no collateral is required. Some programs do require a certain percentage of loan amount backed up by savings. They consider the savings as a grantor of the loan. There are other programs also that demand for mortgage such as jewelry, roof tiles, pots and pans, etc.

Usually loan gets bigger and bigger each time. However it also depends on the repayment history of the person. The peers themselves monitor the use of the loan. They get more serious in monitoring and repayments when the loan is made out of their savings fund. The interest rate could be higher than the commercial rate but lower than the informal sector rate.

Typologies of Microfinance

Typically classified as sole support for microenterprises in the development community (Dunford & Denman, 2001, p. 2), microfinance has emerged as a very diverse system of delivering financial services. There are several types of microfinance in practice. Following are some common ones.

- **Savings vs. credit led:** Savings led approach to microfinance is very common. In this approach the clients of the program save money regularly according to the rules established by themselves as a group. Size of the individual savings and total group fund may vary from one group to the other. Usually the more matured the group is the bigger the savings becomes. They mobilize their savings to lend among themselves. Often the matured groups are also able to tap into external credit. Credit-led groups, on the other

hand, are formed by outside agencies, commonly known as microfinance institutions (MFIs). MFIs provide credits to their clients. Most of the MFIs also collect savings. However their main service is credit, not savings.

- Community based vs. banking: Community based microfinance is one of the services delivered by community based savings and credit organizations (CBSCOs). CBSCOs emerge from within the community with little or no support from outside. Primarily they use members' savings as the sole source for financing. However they may also try to attract outside credit eventually. Banking approach just the opposite of that. It uses credit led approach. External banks or formal microfinance institutions (Asian Development Bank, 2002, online) such as Grameen Bank provide the credit themselves or through other MFIs.
- Cooperatives and credit unions: Cooperates are probably the oldest financial institutions. Based on their services cooperatives can be divided into three types—multi-purpose, financial and non-financial. Financial cooperatives are the ones that provide financial services. Depending on the governing laws of the country, credit unions may also fall in this category. Multi-purpose cooperatives may also provide financial services in addition to others. Both the cooperatives and credit unions take savings and also provide loans. They function as groups. However some of the cooperatives and credit unions based in cities or towns operate just like banks, working at individual level. Their day-to-day operations are managed by staff. The others are less formal and function like CBSCOs. The shareholders involve in making all the decisions, and also in running the office.

- Formal vs. informal: Informal sector of the microfinance addresses the most of the demand of microfinance (Asian Development Bank, 2002, online). Since this can be non structured or less structured, it can provide services to a wide range of people. Informal financial services are in existence for a long time. There are a lot of variations among themselves. Rotating savings and credit associations (ROSCA) is a common one. It exists in many countries and has different names. Partners of Jamaica and Britain, *hui* of Vietnam, *ngangi* of Cameroon, *Dhukuti* of Nepal are some examples(Johnson & Rogaly, 1997, p. 17). The emerging sector of microfinance is formal. It has rapidly increased its outreach and variety of services. By nature it is very structured, organized and hierarchical. Grameen, Bank, village banks are examples of formal sector.

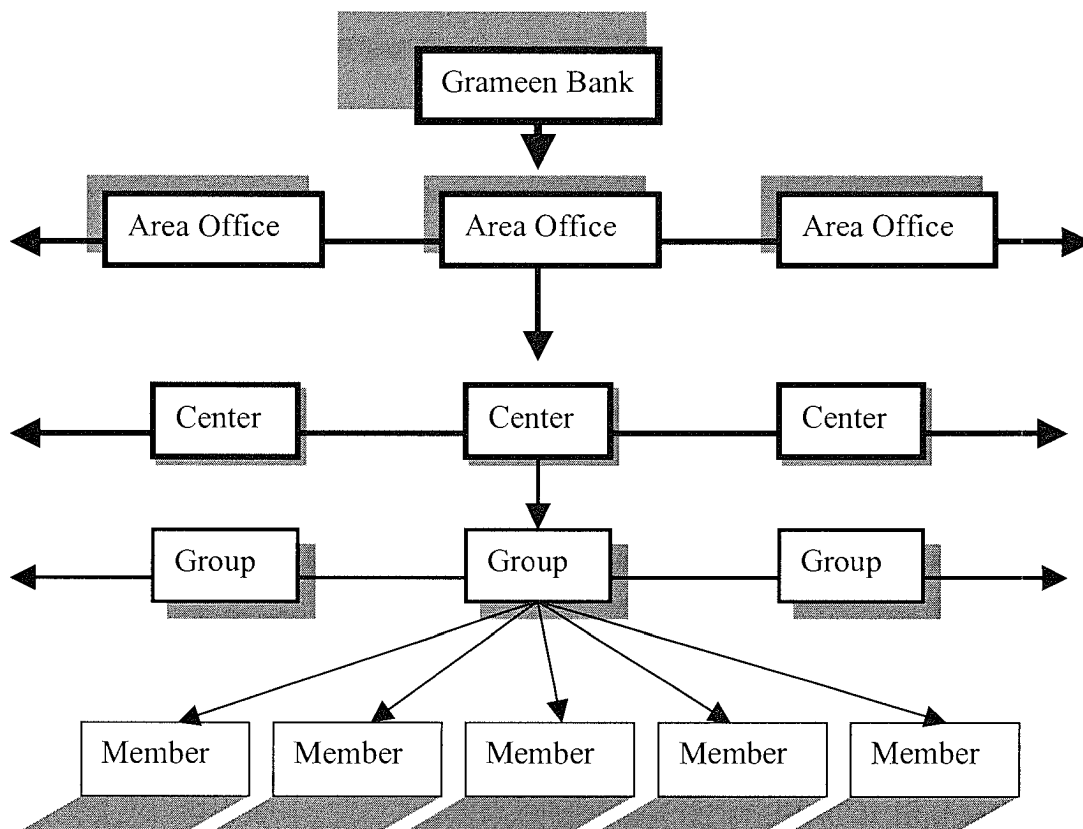
Modalities of Microfinance programs

Just the way there are many types of microfinance there are many modalities within each type. In this paper I will be focusing only in the formal sector of microfinance because this sector is emerging as mainstream microfinance. Even within the formal sector there are many models. Bangladesh alone has a several models like Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Proshika Kendra, Association for Social Advancement (ASA), Thana Resource Development and Employment Programme (TRDEP). Here I will be discussing only two models of mainstream microfinance that have worldwide replication and adaptation.

Grameen Bank: Grameen Bank is the pioneering model of large-scale outreach microfinance program. It was started by Professor Yunus in Bangladesh in 1983 after a successful pilot project. Grameen Bank has become one of the leading models in

microfinance. Because of its success and popularity, it has been replicated and cloned all over the world. Until 2001 there were 223 replications in 58 countries (Grameen cited by Rhyne, 2001, p. 8). Thas and Getubig believe that Grameen's "impressive performance in terms of repayment and impact on the poor are the attractions for potential replicators (1993, p. 13). It is a good model for a densely populated area and could be challenging in the scattered settlements. Because of its weekly repayment schedule, it encourages the borrowers for petty trades, multiple economic activities and activities that gives a quick turnover. It is a women-focused approach. Ninety-four percent of Grameen clients are women (Grameen Bank, 2002)

Grameen Bank Organizational Structure



Grameen Bank is a top down organization. It starts from the above. Here it is presented bottom up. Groups are formed consisting five members in each. The Bank has its standard criteria for selecting the members. They have to complete the Compulsory Group Training (CGT) successfully. Upon joining the bank they attend the weekly meeting at the center. A center could have five to eight groups. The meeting will be conducted by a bank staff who issues new loans and collects installments. The staff who comes from an area office also collects savings of the member. The savings will be deposited into the bank's account. Each member is provided a passbook, which is updated each week as the transactions occur. Only two persons out of the five in each group get loans first time. After eight weeks the other two get their loans. The fifth member, who is a kind of the leader of the group, will be the last one to get loan. Repayment has to be made every week right from the next week of the loan disbursement. There is no excuse. Any late payment is fined. If anyone defaults, the whole group will be penalized. No one will get any more loans unless default is cleared. Grameen credit is set only for the productive purposes. Ideally they should use the loan only for the scheme they got it for. However the practice indicates a very different scenario. A survey done by Helen Todd showed that 85% of Grameen borrowers used their loans for other than the approved plans (Todd, 1996, p. 24). Members can also access emergency and other loans but that is not that significant. After one loan is paid off, they will be eligible for another and bigger loans. Loan terms are usually of 50 weeks.

Grameen is poverty reduction model. It targets to reach out poorest of the poor. It has its standard criteria for selecting clients. A staff person goes to a village or settlement. Finds interested people who meet the criteria. They attend CGT as a group for seven days, one hour a day. All of them will have to pass the final test at the end of the training. If one of the five does not make the exam whole group will be disqualified. Therefore the training is very rigorous and intensive. Women also have to pay certain fee for the training but that will be deposited to their savings. Since it is focusing on destitute women, they comprise high rate of illiteracy. The training becomes longer and methodologically challenging when majority of the participants is illiterate.

- **Village Bank**¹ : Foundation for International Community Development Assistance (FINCA) pioneered the village banking model. John and Marguerite Hatch wrote the first *Village Bank Manual* in 1989 on which most of the village banking programs are based. The main features of the village bank model are access to outside credit, incentives for savings and mutual group support for the poor specially the women. Typically a village bank promoter of a sponsoring agency (MFI) organizes a group of borrowers ranging somewhere between thirty and fifty. The group is called village bank. However different organizations call it by different names such as community bank, trust bank, credit association (Dunford, 2001, p. 6). Members are selected by themselves through a self selection process. Among the members, each village bank elects its four officers—president, treasurer, secretary and controller who have specific functions. The first election takes place in the trail and training period, within the first one month. The

¹ This section is based on the work of Sharon L. Holt, *The Village Bank Methodology: Performance and Prospects* (1994) unless it is cited otherwise.

promoter trains the village bank during that time and helps it to hold four weekly meetings, start the savings process, establish bylaws and plan for the inauguration.

Training in the village bank model is intensive. It can be understood from the roles that the village bank especially the officers have to take. They manage the village bank—lend money; collect savings, fines, charges and loan repayments; keep up-to-date, accurate and clear records; and monitor the proper utilization of loans.

On the group guarantee loans are made to individual members. Usually they have a four-month loan cycle. The committee of the four officers conducts weekly meetings, opens and closes the cycles, manages savings, loans and repayments and keeps the records of each and every single transaction. Village bank manages two separate accounts—internal and external. External account consists of the loans received from the sponsoring agency to on-lend to its members. Internal account is built up by savings, interest on the loans made out of the savings, fines, spread earned out of the external loan interest, profit from the group income generating activities done using the village bank's money.

Schism of Microfinance

Conventionally microfinance is a program that caters only the financial services. Voices to make it more than that is growing. Now microfinance practitioners are divided into two groups over the issue of "finance only" or "finance plus." Tussle between these two groups is becoming pertinent. One believes that microfinance should remain purely financial. The other group of practitioners argues that it should also include other kinds of developmental initiatives. Woller,

Dunford and Woodworth call this differences over approaches to microfinance a "schism, or debate between two camps...the institutionists and welfarists" (1999, p. 29).

Focus of the institutionlists is on the institutions and MFIs that deliver the financial services. Their point of view is that if these institutions do not survive who is going to provide the services. There is a proverb in Nepali, *Narahe bans nabaje bansuri* (without bamboo there won't be flute.) Therefore these institutions should focus on their sustainability, efficiency, cost recovery, and add other services without jeopardizing their future. They can provide service only if they exist. This argument assumes that packaging other services such as literacy and health, MFIs cannot be sustainable. Because these services need to be provided as handouts, and cannot be delivered through an enterprise. Or, delivery of many services becomes so cumbersome. Each service requires different set of skills and expertise creating more pressure on time, finance, skills, and human resources.

To the welferists, on the other hand, all these arguments are mere excuses to get away from the very purpose of microfinance—poverty alleviation. They don't buy the argument that integration of other sectors of development with microfinance increases the cost of microfinance. Welfarists defend their position saying that it depends on how other components are included in microfinance. For instance, results of Credit with Education show that adding education component to credit does not increase much cost. It is somewhere between 4.7%-10. 0%. This is marginal for additional component (Bruegge, Dickey & Dunford, 1999, p. 4). That little extra cost too maybe get repaid back by making the clients more loyal to the credit services.

Obviously additional benefit such as education not only helps the members to stay on with the program but also attracts new members.

Chapter Three

CHALLENGES OF MICROFINANCE: EFFECTIVENESS AND OUTREACH

Effectiveness

What constitute a microfinance effective is not that easy to spell out. There is no unanimity among the microfinance experts about effectiveness. Several indicators are used to measure it. Copestake suggests outreach, number of active borrowers and savers, average loan balance, the percentage of women to total borrowers (Copestake, 2000, p. 128). These indicators are very narrowly set. They look into only the outreach or volume of the program.

Gauging effectiveness of microfinance by established best practices is common. "Best practices represent the techniques that have proven the most effective for successful sustainable microfinance lending programs around the world" (AMIR Program, 2002). Microenterprise Best Practices Project (MBPP) of the USAID suggests that the effective microfinance criteria include:

"...convenient and timely service to borrowers, simple application procedures, small short-term loans and gradual loan size increases based on repayment history, reliance on character and/or non-traditional collateral, strong relationships between the lender, borrower and the community, and immediate follow up on delinquent loans" (Microenterprise Best Practices , 1997, p. 1).

From this set of criteria it becomes clear that it looks only into financial aspect. It assumes that making credit easily accessible with timely services, and simple application procedures without requiring collateral microfinance becomes effective. Similarly it also lists borrower's qualifications like good repayment history and character; and program policies such as short-term loans, strong relationships between the lender, borrower and the community and follow-up with delinquency. All these criteria are related to financial aspect of microfinance. The only non-financial indicator is use of character as collateral. Other than the character best practices do

not really use the quality of life related indicators. Therefore using best practices as a measuring rod for checking effectiveness of microfinance cannot be fair and complete. Financial data might show that the borrowers' income is going up. That does not necessarily tell that the increased income has improved the quality of life. That income might have been gone towards paying the interest, buying more financial services, making up with the inflation, and so forth. In that situation the income might not be helpful in improving quality of life.

Set of indicators used by microfinance programs varies from program to program. AMIR for an example uses slightly different indicators than suggested by the MBPP. AMIR's indicators also include efficiency and cost recovery along with other financial policies:

- Offers services that fit the preferences of low-income entrepreneurs. These are related to loan terms, size, frequency.
- Streamlines operations to reduce costs. Examples of streamlining are standardized lending process, decentralization of loan approval, inexpensive offices or no office expenses, local staff.
- Reaches highest and repayment rate, motivates clients for prompt repayment
- Recovers full costs from charges, interest rates, fees. (AMIR Program, 2002).

Compared to AMIR and MBPP, Catholic Relief Services' (CRS) indicators of an effective microfinance are short but cover a broader range. Understandably it balances both financial as well as clients' quality of life related indicators. Hundred percent repayment, significant increase in savings and improved economic status are related to financial aspect. Improvement in the quality of life is looked through empowerment and spending more on to education and health

care. Here empowerment is interpreted as "feeling" in terms of involvement in household financial decision making. The criteria go beyond the individual level to the community level as building a sense of community solidarity (Catholic Relief Services, 2002, para. 2).

Perhaps checking effectiveness of microfinance against a set criteria is not a good idea.

Measuring effectiveness of any programs using a set of indicators is not fair. This is also true in the case of microfinance. It cannot capture the multi-dimensional impacts made by programs on the clients, and the society in large (Cheston & Reed, 1999). However what are being used will be discussed here to get into the subject matter. Traditionally it has been measured on the basis how the organization that deliver microfinance services such as microfinance intermediaries (MFIs) are doing. If they are doing well, recovering costs, attaining a high repayment rate, then that program is considered effective. But these indicators do not give any clue how the clients or the recipients of the services doing. It is so far away from the reality just like the 'mister' in the joke is looking for the key across the street though he lost it on the other side:

“Hey, mister, what are you looking for under that light?”

“My keys.”

“Why, did you lose them there?”

“No, I lost them across the street.”

“Then why don’t you look for them across the street?”

“Because the light’s better over here.” (Cheston & Reed. 1999, p. 20)

There is a reason why all these financial indicators are peripheral to performances of MFIs.

These indicators of effectiveness are set to safeguard sustainability of the programs, and MFIs.

If they become sustainable nobody basically argues that that microfinance is not effective. The

core assumption is that without existence of sustainable MFIs microfinance cannot be effective.

Sustainability of MFIs equates to effectiveness of microfinance.

Arguments against this assumption and blowing the notion of MFI sustainability out of proportion are also becoming stronger. Fundamental questions are being raised. Who are the microfinance programs for? Are they for people or for building the financial institutions? There is no wrong with building strong MFIs, but where are the people in there? Most of the indicators do not talk about them as if they are secondary to the programs. How can a program be considered effective if it does not look into how the people it is trying to serve are doing? Cheston and Reed observe, "...only performance indicators used to gauge the effectiveness of microcredit programs measure the profitability of the lending institution and the quality of its portfolio. They don't tell us whether our clients become less poor due to the services we provide" (Cheston & Reed, 1999, p. 20). Again poverty does not mean only the lack of wealth. It also includes feeling like powerless, oppressed, insecure, weak, etc. Unless they feel empowered they will not be out of poverty no matter how wealthier they become economically. IF the clients become financially stronger may be the MFIs will also become sustainable. But it does not guarantee empowerment of clients in reciprocity. "Sustainability is a necessary but not a sufficient condition for empowerment" (Pischke, Schneider & Zander, 1997, p. 10)

Microfinance has been focusing more on financial aspect, particularly of the intermediary. Concerns around looking at the quality of life of the clients are becoming increasingly louder. Empowerment has become a focal point of that. 85% of the surveyed clients of Grameen Bank did not use their loans for the purpose they had described on the loan application (Todd, 1996, p. 24). From the microfinance best practices point of view this is not a good indication of the use of loans. On the other hand, from the perspective of empowerment there is nothing wrong with that. As long as they used the loans wisely and benefited from that there should not be any

problem. Perhaps they took the loan thinking that they would use as stated in their loan application but by the time they were using it they found a better use of that for them. Or, they thought that if they had sought loan for the activity they wanted to undertake they would not get the loan. May be the Bank needs to learn to be flexible in terms of use of loans. They can use it any businesses but that needs to be informed to the lender in due time so that there will not be any misunderstanding. Any way they should be able to feel empowered to use the loan for the best productive purpose to them. If they are too much stipulated that they have to find a fake scheme to do a genuine business or they have to get into less profitable business just because that is what they got the loan for, both scenarios are not empowering.

Outreach

Expanding outreach is one of the challenges of microfinance. Effectiveness and outreach are interrelated. One can be the cause or result of the other. If a program is effective expanding it to reach out a larger number will be easier. Similarly if a program is very small and is having difficulty with expanding outreach, it raises a red flag about the effectiveness.

Outreach is important not only for the poor people who could be benefited from the microfinance services. It is also important for the MFIs. The faster it can serve a larger number the sooner it can become financially self-sufficient. As in any business volumes gets the heaviest weight in determining the profitability. Johnson and Rogaly observe, "...achieving financial sustainability...much emphasis has been put on reaching a sufficiently large number of users so that economies of scale can be made, and cost of serving numerous small transactions start to fall" (Johnson & Rogaly, 1997. pp. 61-62). Therefore the cost of services is one of the issues related to outreach. If the cost is low then the services could become cheaper hence resulting

attracting more subscribers or the difference of the cost and the revenue could be used to expanding outreach. Either way, number of the users of the services will go up.

Some practitioners think that lack of adequate financial resources plays a vital role in determining outreach of microfinance. Maria Otero is one of them. She views that MFIs do not have sufficient fund to increase their lending dramatically and also reach poor. At the same time, there are financial resources out in the capital market. But MFIs will not have access to that until they become "part of the financial system." By part of the financial system she meant that the MFIs should be regulated by national financial policy (Otero, 1999, pp. 12-13). Once they are regulated and become the part of the system they will gain creditability which will give them access to the capital market. When they have more financial resources then they will be able to scale up their outreach. There is no doubt that more resources will enable microfinance to increase its outreach. However one can also argue that the resources could also come form other sources than the capital market. In fact Otero herself also sees savings as an additional source of capital for microfinance (1999, p. 13).

Generally outreach is understood as horizontal expansion. It could be coverage by territory. However most common is larger number of clients enrolled in the program. Therefore indicators to measure outreach are primarily focused on horizontal expansion. For example indicators included by Micro Banking Bulletin are statistics on the number of active borrowers and savers, average loan balance as a percentage GNP per-capita, and the percentage of women to total borrowers (cited by Copestake, . It needs also to be noted that outreach means a vertical expansion, too. Vertical expansion can be achieved by improving, consolidating and

diversifying services, reaching the hardcore of poor, reducing dropout rate, etc. Otero observes, "One essential means of alleviating poverty becomes the creation of a broader and deeper financial system..." (Otero, 1999, p. 13). To create a deeper financial system is to expand it vertically. For that it needs to emphasize enough on the groups and the members. They should not be treated just like passive clients who receive services. Rather they should be trained to become master of the system learning by doing it and teach the others to do the same. So that they become the strong members of the system, and also lead the expansion of the program horizontally.

Chapter Four

USE OF NONFORMAL EDUCATION IN MICROFINANCE PROGRAMS

What is Nonformal Education?

Founded on indigenous education such as Koranic schools, Buddhist *wats* (Evans, 1981, p. 17), Gurukul, nonformal education is not really a new concept. Generally it is understood as out-of-school education (Evans, 1981, p. 11), which is "organized, intentional and explicit efforts to promote learning to enhance the quality of life..." (Reed, 1984, p. 52). To define nonformal education, Etling categorizes education into three types based on its settings: formal, nonformal and informal (1993, p. 73). School education is formal. Systematic and intentional education other than of school is nonformal. Unorganized and unplanned learning is informal including incidental. Evans furthermore distinguishes incidental education and informal education. He separates them on the basis of conscious attempt to learn. In Incidental neither the source nor the learner intends to make such attempt. Whereas in informal education, either one of these, source or the learner intends to promote learning (Evans, 1981, p. 28).

Over the years, nonformal education has been used in many forms. It is very heterogeneous which applied to many fields, activities, audiences (Hallak, 1990, p. 238). Different terms and phrases are coined to make it sound appropriate to its target audience and purpose of development activities, too. Evans calls them 'labels' and accredits practitioners of nonformal education for using them in wider variations. To him labels of nonformal education are popular education, adult education, functional literacy, farmer education, cooperative education, agriculture education, family-life planning, nutrition education, community development

education, including literacy (Evans, 1981, p. 18-19). Hallak makes the range even bigger saying, "NFE deals with everything from literacy campaign to computer technology" (Hallak, 1990, p. 238).

Use of NFE in Microfinance

Microfinance has been using NFE from the very beginning. Traditional moneylenders would educate the borrowers telling them the terms of loan, interest rate, etc. They also would keep the records of the transaction in most of the cases stating all those terms and conditions of the loan and repayment. Modern institutionalized microfinance also follow the similar concept of borrowers' education and record keeping. However it has made more sophisticated and intensive. Nevertheless not all of them use NFE at the same level of sophistication and intensity. It varies by the purpose they use NFE. Based on the main products and services, not on the byproducts, catered by the particular models and approaches use of NFE can be categorized into three.

1. Educating borrowers on the credit: Many mainstream microfinance models such as Grameen Bank, village bank use NFE to educate borrowers on the credit. They use two avenues for this teaching and learning. One is the formal training in the beginning and the other is the regular meetings, weekly on the case of Grameen. Intention and content of education will be always only and around the credit.
2. Borrowers' education plus: There are some other approaches to microfinance that do more than just borrowers' education. Credit with Education of Freedom from Hunger is an example. It the village bank model of microfinance and also spends some time and resources to educate the borrowers in health and nutrition education, and business

development in addition to borrowers' education. During the weekly repayment meeting for first five weeks "the field agents presents a health/nutrition, microenterprise, or credit association [like a savings and credit group] management topic..." (Kevane, 1996, p. 6). The five topic areas of the "hunger prevention education" are "breastfeeding promotion, infant and child feeding, birth timing and spacing, diarrhea treatment and prevention, and immunizations" (MkNelly, Watetip, Lassen & Dunford, 1996, p. 4).

3. Microfinance education for empowerment: Women's Empowerment Program (WEP) of Nepal is an example of this kind of approach. WEP's goal is empowerment. It has adapted the village bank model of microfinance using literacy led approach to achieve that goal. It provides basic literacy to its clients in the beginning. Then it educates the clients on the microfinance contents, in addition to others like legal rights and responsibilities, capitalizing the newly acquired literacy skills. The difference between the "borrowers' education plus" and the "microfinance education for empowerment" is similar to "giving the fish" and "teaching how to fish." The literacy skills opens up the literacy world for them, where they can not only access knowledge and information themselves in any area but also be able to keep records of their banks (like savings and credit groups) as well as of enterprise.

Why literacy in Microfinance?

From these discussions it is clear that NFE means a wide range of things. In this paper I will be using it as literacy. Literacy is a skill or a tool not an end. It may not be productive in itself but its use may make people more effective and productive what ever they pursue such as microfinance. Microfinance programs have their own goals and objectives. But these programs are changing over time. Originally it started as poverty focused program in the mid 1970s to

address problems of poverty directly (Yunus, 1993, p. 4). But its practice was narrowly focused on to economic development interpreting poverty simply as lack of money. Assumption was made that financing would help the poor to increase their income and problem would be solved. That is how the microfinance was developed. However it did not happen that way. Therefore, this conventional approach has been critiqued by many practitioners. They argue that it has failed to address the issue of poverty (PUT ALL THE CITATIONS HERE). Poverty is result of many complicated issues. One of them is literacy. Perhaps it is the furthestmost important issue. Because, often time "...poverty and illiteracy are commonly treated as synonymous terms " (Maddox, 2001, p. 137). It is not used just metaphorically. Illiteracy really reflects poverty.

Provision of resources like financing alone will not help much to address the issue of poverty. Finance will have to be used efficiently and effectively for productive use such as microenterprises. Investing into an enterprise demands a lot of skills. Some of the skills are related to doing feasibility before starting the business. Others need to be used after the start-up. To provide these skills on an ongoing fashion is next to impossible to any microfinance program in the traditional way. Only alternative to that could be providing literacy to them so that they can learn or search for skills required for the stages of their microenterprise development. Nevertheless they need literacy at least for calculations and bookkeeping (Maddox, 2001, p. 141, & Doronilla, 1996, p. 119). Illiterate will not be able to do it. That is one of the reasons why many clients of microfinance programs, women, have to be depended on others. This practice sometimes could result into a very disempowering experience. The control over the money may end up being somebody else's hand whereas the women could be entangled for the repayment.

Feminists, understandably, have this issue particularly very high. Literacy could become a lifesaver in that situation.

Moreover, "the literacy associated with economic calculation and record keeping involves particular type of written text, practice and vocabulary" (Maddox, 2001, p. 141). Many terminologies are used in the field of microfinance as in any other disciplines. Some of them are too technical and beyond the grasp of even educated people. The clients are not only expected to be familiar with them but to master. Loan installments, principle, interest, account are the simplest ones. They may have to calculate and record even profit and loss, rate of return, cashflow, balance sheet, etc., which are more complicated.

Let's walk through the process how clients get in a microfinance program. They attend some kind of training or orientation before they join the program. No matter how simplified and down to earth the training is, it does involve some degree of literacy skills. If they are illiterate, that might limit their learning or at least make it difficult. Soon after they may have to sign-up for the program. If that does not require signatures they may have to use it when they take the loans. Grameen bank teaches its potential members how to sign their names in compulsory group training, which takes place before they join the bank. Bangladesh has world's one of the highest female illiteracy rate—69 percent in 2001 (World Bank Data Indicators, 2002). Most of them are the poor women. They are the ones targeted by the Grameen Bank. Therefore it is understandable what kind of challenges the Grameen Bank might have been facing due to illiteracy. Khan and Ahmed agree to that:

"Illiteracy has indeed slowed down the progress and sustainability of the economic development and social integration of Grameen member. Realizing this, Grameen Bank

has decided to support within its conceptual framework, an education program for its members." (Khan & Ahmed, 2002, para. 2).

Microfinance cannot be effective and sustainable until the borrowers benefit from it. In other words, the clients will have to have profitable microenterprises. Literacy is one of the skills for a successful operation of microenterprise. Pamela Friedman suggests that financial literacy and financial marketing and market access skills such as marketing, bookkeeping, pricing help entrepreneurs become successful (Friedman, 2001, p. 5).

Just like the Grameen bank model, village bank also has the same potential challenge of illiteracy. It will become more serious when the financial resources of village bank increases. Sharon Holt observed, "The mechanical functions such as keeping accurate accounts and minutes can be difficult, especially in areas where literacy and numeracy rates are low. None of the banks visited had fully satisfactory accounting system" (Holt, 1994, p. 173).

Credit with Education, a grafted program of village bank model also uses educational approach to microfinance. It incorporates nonformal education at the borrowers' meeting covering various themes such as health, microenterprise development (MkNelly & Dunford, 1996, p. 36). This is much better. Nevertheless it does not teach them reading, writing and numeracy, in other words literacy. After his qualitative research of Credit with Education program in Burkina Faso, Kevane suggests, "The high illiteracy rates ...enormously complicate the process of creating an enduring institution like Credit Associations. Illiteracy makes it difficult for ...members to trust officers [president, Treasurer, Secretary and Controller]; they cannot check their actions in writing." (Kevane, 1996, p. 24).

Nevertheless Dunford rules out incorporation of literacy in any microfinance programs including Credit with Education. Because, literacy training takes a lot of time and requires different technical skills. However he is aware about the possibility of its unification with the group-based microfinance especially after the recent innovations in the literacy training such as Women's Empowerment Program (WEP) of Nepal (Dunford, 2001, p. 61).

With these discussions about nonformal education, it is clear that it an effective way of teaching and learning. Teaching and learning in the setting of microfinance formally begins from training. Most of the microfinance programs start with training anyway as a general rule of thumb. And, all the trainings, by its definition and nature, fall into the category of nonformal education. Trainings of microfinance programs are no exception to that.

Chapter Five

CASE STUDY

Introducing the case

Women's Empowerment Program (WEP) was implemented with a funding from USAID in Nepal in December 1997 and ran until September 2001. The program had three major components: empowerment literacy, economic development, and rights and responsibilities. In this paper I will be focusing on economic development intervention with use of empowerment literacy. The purpose of the case study is to analyze on how literacy can be instrumental in scaling up outreach of microfinance program while enhancing effectiveness. What worked and what can be made even better. Presentation of the case study is based on the theoretical discussions in the previous chapters.

WEP was very much influenced by its two preceding projects Women Reading for Development (WORD) and *Women in Business* (WIB). Reaching out to a large number of women was learned from WORD project. WIB's experience provided the structure in designing a savings-based and literacy-led microfinance program to work with larger number of women. There are many savings based microfinance programs. The distinction of WEP is that it is literacy-led. Perhaps this is the only literacy led and savings based microfinance program (Dunford, 2001, p. 61) that is this big {HOW TO CITE REFERENCE OF QUOTATIONS PUBLISHED IN A NEWSLETTER?????—heading of the news or the name of the newsletter?} (Ashe quoted in In Nepal, a novel project mixes literacy and microfinance to reach thousands, 2001, p. 8). It worked with over 120,000 women from the beginning. This kind of massive enrollment would not have been dreamed of if WEP had not used the literacy-led approach. Because it would

require a lot of human, financial and material resources which would be next to impossible to produce in that short period of time. Therefore WEP is WEP primarily because of the literacy led approach. In order to avoid redundancy hereafter it may not be mentioned explicitly while presenting WEP examples, but it is implied so.

Design of WEP

As the title suggests, women's empowerment was the goal of WEP. For WEP empowerment was defined as "increased women's literacy; increased women's legal rights, responsibilities, and advocacy; and strengthened women's economic participation" which are measured by three set of indicators that represent "the key dimensions of women's empowerment...household decision-making, spending on family well being, and initiation of collective actions for change" (USAID/Nepal, 2002, para. 9).

WEP adopted the village bank model of microfinance and converted it into a savings led approach integrating literacy. Typically a village bank model is credit led. It is semi decentralized compared to the other models such as Grameen Bank. WEP, however, since its goal was empowerment, is extremely decentralized. Ownership and decision making to a greater extent are left to the groups themselves.

Training for the WEP participants is conducted in three ways: group meetings for studying series of self-instructional manual, known as *Women in Business* (WIB) manuals; monthly mobile workshops; and routine visits of promotion staffs. However all trainings are based on WIB manuals. They are source of information for everybody—trainer, master trainer, participants.

The manuals, which are text as well as workbooks, consist of four volumes¹ —*Our Group* (Empowerment Literacy), *Forming Our Village Bank*, *Village Bank: Credit* and *Village Bank: Entrepreneur*. Empowerment Literacy can be taught by any literate with minimal training. This can be used for one-on-one teaching and learning or for a small group like of 2-6. The book teaches all Devnagari (script of Nepali) alphabets and basic numeracy skills. Though the process teaches the letters and numbers the content is focused around empowerment themes and economic development by way of savings and credit. The second, third and the forth books guide them forming a village bank; managing savings; mobilize savings lending it out to the members; run a village bank from opening to closing loan cycles; get into business both in group and individual. They do not need any teachers. The participants are already literate and the manuals are user friendly for their level of literacy skills. Participants read it themselves in the group following instructions and suggestions in the manuals. The format of the manuals is standard. A new key concept gets introduced. Then the concept is elaborated in various ways such as stories, skits, dialogues. That is followed by drilling exercises. At the end, the participants are asked to reflect upon the concept and make appropriate decisions for their groups. For example the decisions could be: what are the rules; what are the qualifications to become a member; how much is the minimum mandatory savings; how much fines to impose for what; whether or not to have provision of voluntary savings; what interest rate is appropriate; etc. Meetings for the groups to read and work on the books were suggested for three days a week and two hours a day. However the groups were free to choose their own pace of learning and frequency of meeting.

¹ This is for the village bank track. For non-village bank tracks such as Microcredit Program for Women (MCPW), cooperatives, Grameen replications, there is a separate book, *selling Made Simple* after empowerment literacy.

Monthly mobile workshops were another type of training used for the WEP groups. The one-day workshops were held every month and the venue was moved each time depending on who is hosting the workshop. Total number of the participants would be 21^2 including one staff for the groups from the sponsoring NGO—Empowerment Worker (EW). The groups select their representatives, and take turn to host the workshops. There are three parts in the workshop. First is sharing the successes. That is followed by how to make things even better. In this part participants comment about the program in general, share challenges faced by their groups, and give feedback to each other including to the facilitator. The facilitator is promotion staff from the program. The third part is like heads-up, preparing for the coming month. Facilitator touches upon the key concepts in the book for the upcoming month. Since the participants may be in the different lessons of the manuals, because they determine their own pace of learning, it could be tricky. Yet, the facilitator does not give any new information. S/he just refers to what is in the book.

The third training type of training, routine visits of staff is done at the site for each group. Two staff persons do this training as per need during their routine visits for monitoring and supervision. One is the EW, the staff from NGO who visits each group every other week. The other one is the trainer (known as promoter in village bank model). Trainer is a WEP employee who visits each group in about three months.

² The ratio of representative is 1 to 12 or more women. It is calculated on the basis of number of women and number of group supported by an Empowerment Workers. That could be 120 or more women; or, 10 or less groups, whichever is lower.

The program is designed to work primarily with NGOs as intermediaries. However other organizations like cooperatives and MFIs can also equally benefit from it. WEP worked with 240 local partners, which consisted all of these. Their roles were to provide support like training, monitoring, supervision, and guidance, if needed. WEP MFIs' roles are different from typical MFIs. A typical MFI delivers primarily the financial and then the other services related to that. WEP's MFI does not get involve in finance at all. It delivers only other financial services such as training, monitoring, supervision, supplies like accounting forms, and other logistical supports. WEP's goal is empowerment. Therefore the design of its microfinance program is aimed at empowerment of individual clients and their groups. It focuses more on the sustainability of the groups unlike to many microfinance programs that care more about the performance and sustainability of MFIs. However the roles of the MFI are also important.

Scaling up Outreach

"Microfinance theorists assume there must be a tradeoff between financial sustainability and outreach to the poor" (Dunford & Denman, 2001, p. 3). This assumption does have some validity. Though there is no consistency and consensus around the meaning of the "financial sustainability" (Dunford, 2000, pp. 43-44) and poor. However WEP has demonstrated that this tradeoff may not be required. Both can be achieved simultaneously. The impact evaluation of WEP testifies that it can be happened in an organic way without any outside initiative.

"Between 13% and 14% of the existing groups created at least one new group on their own initiative without WEP payment or support. Most new groups were trained in villages... showing how localized this process of spontaneous replication is...In addition, the local NGO and cooperative and MFI partners have created hundreds of new groups..." (Ashe & Parrott, 2001, p. 28).

Thus WEP groups and MFIs have been replicating the program in a ripple effect fashion. The program did not spend a single penny for that. Nor did it have to train the manpower needed for that expansion. They are doing it spontaneously. Ashe and Parrott predict further "...expansion will occur spontaneously with groups and NGOs developing new groups on their own account, as it has already to some degree..." (Ashe & Parrott, 2001, p.7). The program is self rolling without any outside inputs. Groups and NGOs both are taking this initiative on their own. How is that possible? What could have made them so? It is simply the approach used by WEP: literacy-led training, based on savings, and complete decentralization or transfer of ownership. Literacy led training gave them the easily transferable knowledge, skills and materials. Since it is based on the savings they do not have to wait until somebody comes with money, credit. It is so decentralize that virtually any individual, group or NGO can take initiative and replicate program using the WIB books.

Using the literacy led approach WEP was able to reach out thousands of women clients in the program at once. Dr. Cheryl Lassen, an international consultant of microfinance says, "typically microfinance programs start small, to ensure they can collect on their loans, and they expand" (ECTA focuses on Grassroots Empowerment in Nepal, 2001, p.11). As expressed by Lassen collection of loan is important. Responsibility of collecting loans lies to two parties—loan collectors and borrowers. Both parties need to understand the importance and mechanism of loan collection. This understanding is reached primarily through training. Training collectors may not be an issue because their population may not be that big. Borrowers' education could be tremendously challenging. Their number could be huge. Educating and training them require a very large number of trained human resources. Using the conventional training approach of

microfinance to produce large number of human resources is not feasible. Traditionally training in microfinance means face to face contact. Participants are brought to a training place and trained by an expert if not fairly knowledgeable person in the field. Obviously this structure of training has its own limitations. It requires a lot of human, financial and material resources along with time. Lack of adequate resources causes hindrance in scaling up programs. In WEP human resources, time and costs were not really a big problems. Since WIB training is based on the comprehensive, easy and self-instructional manuals, it can be run simultaneously in numerous places locally by simply literate people. Any literate person can easily use the manuals and get the training himself/herself in a group. In other words, the manuals can do the job that the human resources do. Therefore time also is not a problem. Because, those manuals can be used simultaneously in as many locations as needed. WEP used them in 6265 places at a time with different groups. Cost is not an issue either. Participant women buy the books. They arrange the meeting place. That is what they all need. Training is conducted locally, literally in their porches, and in their convenient time. Nothing needs to be provided—no snacks, no per-diem, no transportation. Jeffery Ashe, a visiting scholar at Brandeis University observes, "...most dramatic about this program [WEP] to me is that it has reached out so many people...virtually no programs that are this large ... other than, say, the Grameen Bank, and none that have grown this rapidly" (In Nepal, a novel project mixes literacy and microfinance to reach thousands, 2001, p. 8).

Most of the microfinance programs offer just bare minimum training especially in the beginning with hardly any follow-up. Even that short training, most of the time is spent on how the program works and what are the expectations from the clients. For an example, Grameen Bank

runs Compulsory Groups Training (CGT) for the prospective members for "an hour a day for a minimum period of seven days. The training period itself is also a means for developing patterns for compulsory weekly center meetings and credit discipline" (Innovation and Transfer cited by Grameen Bank, 2002a, para. 6). This kind of training do not have time and resources to include educational and other necessary information for the clients such as how to select a right business. Credit with Education approach of village bank model does include educational piece in the program. It is better than the ones that do not have it. Yet, its education is focused more on sharing information and raising awareness. Virtually not that many programs give them ideas how to utilize the loan and so forth. They need ongoing training and skills development as they advance in their venture. The basic training provided in the beginning will not be enough forever. Perhaps it is next o impossible to think that a program can deliver training to the clients regularly as per their need. Because the need will be very diverse. WEP's training though is very long, about 15 months, cannot be considered as sufficient for lifelong. That only provided knowledge needed for the start-up and skills like literacy for lifelong exploration. They will have to use those skills for learning. Therefore the best way to get around this could be only way to get around this issue will be providing them literacy skills so that they will be opened to the world written materials and may find what they need. This is what WEP did. It provided them literacy. Then trained them on village banking approach. WIB training is based on the comprehensive, easy and self-instructional manuals, it can be run simultaneously in numerous places locally by simply literate people. Its replication is tremendously high with a very minimum cost. Second, it is a structured savings-led approach. Usually savings-led models of microfinance are small in operation, peculiar and isolated from each other. Whereas credit-led approaches are just the opposite. It uses financial intermediaries to deliver financial services to

clients or groups of clients and to ensure repayment. The larger number it serves the more cost effective it becomes. Therefore it is very much structured to include a large number of people. Though WIB is a savings-led approaches it also uses intermediary NGOs to deliver its finance related services such as training on mobilization of savings, book keeping. But it does not get involved in financial transactions. These trainings, again, are just reinforcements of the same what the members get from the manuals.

From the very beginning WEP was a radical shift from the concurrent trend in microfinance. It reached out thousands of women clients in the program at once. Dr. Cheryl Lassen, an international consultant of microfinance says, "typically microfinance programs start small, to ensure they can collect on their loans, and they expand" (ECTA focuses on Grassroots Empowerment in Nepal, 2001, p.11). Similarly Jeffery Ashe, a visiting scholar at Brandeis University also commented, "...most dramatic about this program [WEP] to me is that it has reached out so many people...virtually no programs that are this large ... other than, say, the Grameen Bank, and none that have grown this rapidly" (In Nepal, a novel project mixes literacy and microfinance to reach thousands, 2001, p. 8).

Scaling up has direct relations with cost and efficiency. Due to these reasons mainstream microfinance programs such as Grameen Bank and village bank do not scale-up rapidly even though they would like to do it. They want to keep their programs cost-effective and efficient. Ironically WEP's approach seems to be more cost-effective and efficient. Mainstream microfinance get involved in the process of recruiting clients and pre-enrollment training. This consumes a lot of time and resources. In WEP these are done by the MFIs before they apply for

the program. The program does not get involved in formation of the groups. This cuts down considerable amount of program cost. Similarly it also saves time of its staff. Combination of these two contributes to make the program more efficient. In retrospection, it could result a higher level of efficiency and cost effectiveness. One might argue that it they may not get genuine clients relying upon the third party (i.e. NGOs). Then it could end up investing into wrong people. Which may cause result the program being inefficient and costly. That could be right if some checking measures are not used. WEP has set some preconditions in this regard. For getting into the program, the group should be in existence, meaning at least should have started savings already. Moreover, each member should pay an admission fee upfront; buy the first manual, *Our Group*, in the beginning of the program; and be willing to buy the rest of the manuals. That way the program ensures that it gets only willing, committed and sincere clients. WEP's virtual no dropout also reflects that.

Effectiveness-Empowerment

Outreach: WEP started out with a very large number of clients. It reached out over 120,000 women less than a year. No microfinance program has been able to do it. It was possible in WEP because of its use of literacy led approach.

No dropout: Dropout is a serious problem in any programs. Microfinance is no exception. It gets hit hard specially where the clients are poorest of the poor (Simanowitz, 2000, p. 115). WEP had virtually no dropout (Giving Space, 2002, para. 5). Unlike other traditional programs WEP used many checking and screening measures from the beginning. It made clear upfront what the participants had to make commitments to the program for their participation. Admission fee,

savings, stationery, book fee, finding volunteer teachers are some to mention. These contributions were their investments in the program. The investment also motivated them not to dropout from the program. Dropout is an indicator of measuring effectiveness.

Ownership: They invested in the program because they owned it. Unlike other microfinance models, everything they raised such as savings, fees, fines, interests, profits all stayed with them. No banker takes that away. They themselves decide how to make use of that. They have the full control over it. It is theirs, they build up the group; they create the fund by collecting savings, fines, fees, interests and other income; they lend it out; they monitoring the use of loans; they ensure the repayments; and they keep the records of all transactions gives. Everything is done by them. Therefore they are the de-facto and de-jure "owners" of their groups or banks. Unlike other microfinance programs they are not "clients." In Paulo Freire's terms WEP participants are "objects" whereas the clients are "subjects" (Freire, 1997, p. 116). Clients have no or very little say within the system. WEP was able to make them owners because it had appropriate approach—literacy led—to transfer the knowledge and skills needed to establish and manage the groups.

Empowerment and education: As its central these WEP is for empowerment. Financial services are some important means to attain that but not ends in themselves. This ranking of priority—empowerment first is very powerful in WEP. Study done by Ashe and Parrott shows:

"...200 groups were asked how WEP had changed their lives, self confidence and enlarged sphere of influence in household were most frequently mentioned followed by learning to read...The economics that microfinance is supposedly all about finally appeared fourth on the least with savings and access to loans on the fifth place. As important as the economic aspects of the program are for these women, at this stage in the development of their groups empowerment variables ranked much higher." (Ashe & Parrott, 2001, p. 8).

People may argue that may be WEP did not have a good microfinance program. Or, it was a literacy program rather than the microfinance. However data show that its performance related to microfinance was also significantly higher than many mainstream microfinance. It has collected about two million dollars as savings. Ninety-seven percent of the group fund is out as loans. Repayment is 96%. 86,000 women have started business since they joined the program (Ashe & Parrott, 2001 p.7-8). Annual income of from the businesses increased to over \$10 million from \$1.2 million (The Club of Budapest, 2002, para .2). All it happened within three-four year. Therefore WEP is not just about empowerment and literacy it also has a great innovations in the microfinance front.

Savings as an indication of women's empowerment: Any microfinance program that emphasizes on savings could be more empowering than the others. Savings is the money either owned by the client herself or by her family³. In the first one she has control over money and access to it in the second situation. In both situations she has some influence on decision making how the money is used. These are clear indications of empowerment. On the other hand, in the credit led approaches in which savings is not emphasized enough. It is more likely that the client could be used by other members of the family, particularly the male, to access loan of which's use she may have no say. This situation could be very disempowering. Rutherford suggests that we should go by "savings *and* loan" not by "savings *or* loan". He argues that the poor don't have a big sum. Therefore it is better to pull together small sums from them, turn it into a big sum and lend that out. Different ways can be used to collect small sums such as savings, repayment or

³ Almost all microfinance programs provide services only to women. Some like Grameen bank do have men clients but the percentage is very low.

insurance premiums. Similarly avenues to provide bigger sums to them could be loans, withdrawals from the savings or insurance payout. (Rutherford, 2000, p. 110)

In WEP each member is not only trained but equipped to be more vigilant about their savings, its use, and potential earning it could make through dividend. All of them are equally trained on how to safeguard their money, how to be "money smart," and be watchful on how could it be leaked, where could be the flaws. Moreover they are equipped with tools and financial management skills to check and fix, if there are any glitches. They most important skills are that they are literate, they know the numbers, they can do all the calculations. All of them are more or less equally competent to do the jobs of those who are handling the money and doing the transactions. Therefore WEP was able to generate huge amount of savings in a very short period of time. Ashe and Parrott reported that the total savings held by WEP clients was \$1,900,000. They also projected that it would reach \$3,000,000 by middle of 2002 and \$5,000,000 about the same time of 2004. They believe that that will meet the enough for meeting the credit needs of the most of 6265 groups supported by WEP. (Ashe & Parrott, 2001, pp. 7-8).

Provision of dividend: Perhaps WEP is the only microfinance program that has incorporated the provision of dividend. Dividend is calculated at the end of each cycle, 16 weeks, and distributed to the accounts of the members proportionately based on their savings. So the members can see it that their savings is growing. In addition to the deposits they are making dividend also contributing to that. It encourages them to save furthermore. Many microfinance programs encourage savings and also have mandatory savings provision. However that savings is used as some kind of guarantee for the future or collateral for the future loans. The members do not have

immediate benefit out of it such as dividend or interest. Calculation of dividend further complicates the accounting system. May be that is one of the reasons why other microfinance programs do not have that provision. For WEP, since it is using literacy led approach, calculation of dividend is just one more step in their learning. They are learning everything is adding one more piece to that is not a big deal. In fact it helps to advance their learning of literacy and numeracy. And in the world of microfinance it puts them ahead of the game.

Consolidating family and building stronger community: At the end of each book or about in every three month the groups organize a "family gathering." Family members of all the members are invited to the gathering. Purpose of the gathering is to consolidate family and broaden the sense of community. It also helps eliminate misunderstanding or distrust, if there is any, among the family members due to the savings and credit. In some instances men were not confident how safe would be the money that women were bringing out of home for their savings deposits. They were not sure how that would be handled. That non-confidence was cleared when the treasurer gave the financial report of the group and the secretary gave administrative reports including their decisions for safe money handling practices.

Use of local NGOs: Use of local and large number of NGOs in microfinance programs is not easy. It can create more complications in the operation. Partly, they need to be well trained in what they are doing. Since it is about handling money even a small mistake could become a chaotic. But training a large number of NGOs would be costly, and management and coordination could be cumbersome. Therefore microfinance has become more centralized and sophisticated. But WEP was effective because it used many local NGOs. Groups sponsored by

them had confidence and trust on them because they were local and new each other well before the program started. Training groups was easier for the NGOs because of the use of literacy-led manuals. They did not have to expert on microfinance themselves. Just making sure that the groups are using the books and following the right practice was enough. Since they were not involved in handling the money that was not a problem.

Monthly Mobile Workshop: This workshop proved to be the venue for the groups to share what they have accomplished with pride, and to learn from each other. Groups that were not doing so well compared to the others were pushed o do even better. The program did not have to motivate them. The sense of healthy competition among themselves was much more powerful. This is one of the causes of the big increase in the savings rate. Over time it also created a bond among the representatives of the participating groups. "Sixty percent of the group participated in exchange visits between groups and 71% joined with another group for a campaign or project" (Ashe & Parrot, 2001, p. 30). If nurtured and guided, these groups can be federated. The benefit of federation could be inter-lending among the groups when one has excess money and the other is not meeting the demand for loans. Some groups may reach to excess savings point in a few years if they keep increasing savings as indicated by the study of Ashe and Parrott (2001, p. 8).

Participation: Participation has been a development jargon since late 1950s (Rahnema 1992, p. 118). It is considered as investment or free exercise (Rahnema, 1992, p. 117). Participation can be broadly categorized into two forms--in-kind and cash contributions. The former has been fairly common. But the cash contribution, especially in literacy programs, agencies are struggling for. As the design of WIB, WEP, in addition to in-kind contributions such as class

space and facilities, stationery, volunteering for the teachers, also generated cash contributions. It raised admission fee, book fee. Some paid almost US\$1 per month to pay the teachers (Odell, n/d 2002, online). They built up their savings pool of over \$2 million in two years (Development Marketplace, 2001, online).

Adult learning principles: One of the reasons of WEP's effectiveness is it knows who its clients are. It is very important to note that all the participants of microfinance are adults. And, adults learn differently than children (Knowles, 1978, p. 28). Therefore the training of microfinance needs to be built around the experiences of the clients. They need based on the principles how adults learn. Adult learning becomes effective when it is based on their experiences.

"Experience is the adult learner's living textbook" (Lindeman cited by Knowles, 1978, p. 29).

Adults are competency-based learners. They learn through experiential techniques, and want to apply what they have learned (Brookfield, 1991, p. 92). WEP allows that to happen by spreading out the training over a long period of time. They don't have to learn in the training intensely and use it later. The lessons are planned in such a way that they learn what they need at that time. Then they use it. Their learning gets refined, reinforced and crystallized by the practice. Again they comeback into the group for learning and share their experiences. This process keeps on going for at lease fifteen months until they go through the all four WIB manuals. So, this is also based on the concept of praxis (Freire, 1997). Unlike any other training where time and schedule is pre decided, in WEP participants themselves decide these. They determine their pace of learning, too. Part of the learning is to practice consultation, and make decisions based on the discussions what is best for them rather than imposing outside rules and regulations. Valuing their capacity to learn new skills and use them efficiently the WIB manuals are designed for

them learn the complex concept of accounting—filling out simple passbooks to preparing a balance sheet—in a very simple way and step by step. The whole process makes them competent and empowered. The spontaneous replication testifies that.

"Spontaneous expansion": It is evident from that expansion of WEP is rolling on its own without any outside assistance (Ashe & Parrott, 2001, pp. 7 & 28). What could be better a testimony of program effectiveness other than this? NGOs and groups are taking in-charge upon themselves. The literacy led-approach made it possible for them. They have the books, which teaches a complete system. Moreover they themselves have are the living experiences that it works. This is dear to them. That is why they want to share with their other people. "Some [NGOs] are buying books and group record keeping forms from WEP or asking to borrow books from the trained groups" (Ashe & Parrott, 2001, p. 33). They are sure that with these those materials they can multiply the members in the groups.

Decentralization: Everywhere decentralization is very much spoken but very little done.

Microfinance is not also far way from that. It is very much centralized. Rationale for centralization is given for better performance by standardization, systematization. However in reality it is directly related to power. Who controls is what matters. But WEP is very much removed from all these games of power. Thrust of WEP was to empower the women, the participants of the program. Jeffery Ashe, a visiting scholar at Brandeis University and Lisa Parrott, Technical Advisor in Microfinance, Freedom from Hunger observed:

*"Over the past decade microfinance has evolved rapidly in the direction of ever larger, more centrally controlled and better managed institutions in order to reach scale, cover costs and even evolve into commercial financial institutions. WEP also reached substantial scale, but by taking **exactly the opposite***

approach': complete decentralization and complete local control." (Ashe & Parrott, 2001, p. 9).

This level of decentralization was possible in WEP because of its design to empower the locals and adoption of appropriate approach—literacy led and savings based.

Training structure: Training requires a lot of resources including human. Where there is poverty finding human resources is very difficult. Lack of human resources is such a vicious circle that more human resources are needed for training and training is the way to increase more human resource. Literacy and microfinance programs are also suffering from this acute constraint, lack of human resources. Therefore WEP came up with the literacy led approach to training for microfinance. The use of self instructional and simplified WIB manuals serve the purpose of human resources to a greater extent.

Even if there is no lack of resources including human, training suffers from another problem. It loses the effectiveness as it trickles down. When training is funneled down in a pyramidal structure, which is the case in a big programs, often messages get distorted or misrepresented. Moreover, it becomes the victim of inconsistency. Particularly in microfinance, inconsistency across the program can result in disaster since money is involved. Therefore microfinance programs start small and expand gradually (Lassen cited in In Nepal, a novel Project Mixes Literacy and Microfinance to Reach Thousands, p. 13), and is centrally controlled (Ashe and Parrott, 2001, p.57). WIB model using self -instructional and literacy-led curricula addresses all these issues very effectively. The manuals substitute the trainers. They are studied and discussed in groups. There will be no outsider present to "teach" them what the book means.

Since the books are the teachers they ensure consistency. They do not add or loose any message while delivering to the readers. They give standard information all across.

Typically any training is short, intensive and irregular. Effectiveness of training will be much more greater if it is spread out over time. Trainees use what they learn side by side as opposed to letting them learn now and use it later alone. Also they get more time to interact on a regular basis. WIB's training model is based on these beliefs. The training period is extended for about eighteen months. Training goes hand in hand with practice. Trainees meet regularly to study the manuals, discuss their business and get each other's help. All of these are possible because of the self-instructional manuals. Otherwise as in a typical training, it would not be possible due to lack of resources. Therefore using this approach of training would reduce any development programs' cost significantly.

Sustainability: Sustainability is one of the issues that divides the institutionalists and welfareists in microfinance. Institutionanlists believe that without MFIs attaining financial self sufficiency (FSI) delivery of microfinance services cannot be continued after sometime. Their sustainability is inevitable for the future of microfinance. In order to attain FSI they will have to "cover all actual operating expenses, as well as adjustment for inflation and subsidies, with adjusted income generated through its financial services operations" (Gibbons & Meehan, 1999, p. 132). There is no doubt that without attaining FSI microfinance services cannot be sustained. But this notion does not look at the other aspects of the microfinance—the service users. What if the service users do not want or cannot afford the services? Mere availability of services is not enough for making microfinance sustainable. It has to be beneficial to the users so that they will

have a sustained interest on it, and they also should be in position to afford it. When would the users have a sustained interest on it? Certainly when they understand what it is, how it functions, how they can benefit from it; when they see others benefited from it; when they get the benefit from it; when they become involved and invested in developing, promoting and expanding it; when they feel or become part of it having some kind of ownership or control over it. In brief, when they learn, benefit and become the owner of it then they will have a sustained interest over it. Because it will become theirs'. This is the perspective WEP brought in the sustainability of microfinance. Through the use of WEB manuals participants got the opportunity to learn about the system. They also put their learning into practice simultaneously. They are the virtual investors of the capital fund worth of over \$2 millions which solely owned by themselves. Compared to a high dropout rate of other microfinance programs WEP has 8% only (Ashe & Parrott, 2001. p. 33). That too is the percentage of the people who left the program but more than a double of the leavers joined the program at the same period of time resulting the increase in the group size. This is a concrete evidence of sustainability. Almost all of the groups are still operating on their own. They have the skills, knowledge and materials to continue functioning. Financial resources for running the groups were bore by themselves even during the life or the project. Continuing that should not be any problem for them.

Trust and Transparency: (Kevane, 1996, p. 24)

Chapter Six

CONCLUSION

Microfinance is evolving as a potential industry in the field of development. It has certainly brought hopes in many hundreds of thousand poor people. Efforts are being made to continue to nurture that hope and take it even further. Different approaches are being used to materialize those efforts. Women's Empowerment Program (WEP) of Nepal is one of those many initiatives which has shown ample of indications that if literacy is blended with microfinance, one will enhance the effectiveness and outreach of the other.

Realization of incorporating education into microfinance is getting prominence. There is not much argument going on at present as it used to in the past. The education program initiated by Grameen Bank clearly indicates that. In fact there is unanimity about the benefits of introducing education, nonformal education and literacy in the microfinance programs (MkNelly & Dunford, 1996, pp 36-40; Kevane, 1996, p. 25). There are certainly concerns about how it should be done. Smith and Jain are afraid that one organization trying to do two very different activities like literacy and microfinance, at a time may have to compromise effectiveness and efficiency in one or both. Refuting to that doubt Dunford and Denman say that it is not the finding in a microfinance and nutrition education integrated program (Dunford & Denman, 2001, p. 23).

However some are afraid of the cost hike and its impact on the financial sustainability of MFI. Nevertheless this should not be an issue. Credit with Education program of Freedom from Hunger has demonstrated that the cost may not necessarily go up. The cost for extra educational component could range from 4.7%-10% of total operating cost (Bruegge, Dickey & Dunford,

1999, p. 1). However the payoff could be about the same due to the extra services rendered to the clients (Bruegge, Dickey & Dunford, 1999, p. 5). Nevertheless considerations should be taken to make the education program more effective and beneficial for the clients. Though a full research is yet to be done, initial impacts of WEP's approach integrating literacy with microfinance are promising (REFERENCE from Jeff's study—what are the impacts of use of literacy). This approach does not necessarily increase the cost of microfinance. It rather challenges the microfinance practitioners to accept literacy as an enterprise for MFI which undoubtedly enhances the skills of borrowers for a better performance in their ventures.

Question may arise then that the ultra poor will not be able to afford this new product--literacy. It is a legitimate concern. Perhaps there should be a mechanism established for them to get vouchers, or loan at zero percent interest needed just to get into this kind of program. Microfinance may have to tap into the resources like philanthropic and voluntary organizations as suggested by Dunford (2000, p.43). If traditional social services have been doing it why microfinance cannot do it. Again this is just one time cost for each cohort. Therefore it should not be financially burdensome. The reason it is suggested here to take this route is that microfinance has become a group-based approach. A group may consist of people who can afford all of it, some of it, or not at all. For the sake of fairness to the poor those who can afford it partially or fully should not be subsidized completely. Making a homogenous group could be challenging and impractical. The reality is that people of various economic strata live in the same community. This could be more relevant especially in urban settings where income of people is very diverse.

Qualitative study of microfinance program's impacts is an area to be researched further. Like the joke of lost key hitherto the study is more concentrated in quantitative areas such as financial self sufficiency and sustainability. Very little studies are done how microfinance has impacted its clients' lives. After more studies perhaps the definitions of effectiveness of microfinance will be different. Because new studies may discover a whole lot of other issues which are not thought of yet.

Issue of financial sustainability in WEP...it is not at the program level at least the program developmental stage...replication will be very cheap...but constant improvement is needed which may need outside money for research, studies and necessary improvements utilizing the findings of those research and studies...citation of Dunford's article on grilling microfinance. WEP is sustainable could be sustainable at the village bank level provided that the necessary accounting and auditing skills are transferred to sponsoring NGOs...NGOs could also sell the accounting forms and other materials need for the banks.

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