

Microlending as a Solution to Poverty

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Introduction:

The trend of microlending, also referred to as microfinance and microcredit, has been growing steadily over the past few decades. It is generally seen as having had great success in helping people in developing countries overcome poverty. However, microlending programs have not reached everywhere quite yet, and not everyone believes that they are the solution to the problems impoverished people face. There is much debate among economists, politicians and scholars about the success and power of current microlending programs, and the ability of those organizations to solve problems on a larger scale. The following case is about a hypothetical non-governmental organization (NGO) that wants to start up a microlending program in a small rural village in Sierra Leone, West Africa, where most of the population is suffering from severe poverty.

The purpose of the case is to educate students about microlending and encourage them to think about the many issues surrounding the microfinance trend, including how it affects individual communities and its potential to change the economic situation on a global scale. It begins with an overview of microlending, including a brief history and several examples of successes and challenges in microlending endeavors. This is followed by a role play, in which students are asked to discuss questions and concerns related to starting up a new microlending organization and attempt to find answers to the questions that are raised. This case is geared towards making students think about the best ways to maximize the effectiveness of microlending programs and to consider and explore their potential to be part of a solution to global economic problems.

History and Overview of Microlending:

The trend of microlending has been a widely discussed topic over the past three or four decades. Microlending is “the process by which very small, collateral-free loans are given to low-income individuals to enable them to start or expand what are essentially self-employment projects” (Philanthropic Advisors.com, 2001). The trend was pioneered by the Grameen Bank of Bangladesh, which is perhaps the most well-known microfinance organization in the world. Various NGOs and banks have established microlending programs in impoverished countries with the objective of improving the lives of people living in poverty and giving those people the ability to participate in the global market. Women have been the primary recipients of microloans because they generally have less access to the few economic resources in developing countries than men do.

The way microlending works varies from program to program, but the main idea is that small loans are given out to groups or individuals who wouldn't normally be eligible for a loan. The source of funding for the loans can come from savings or from such sources as government funding and private philanthropy.

Microfinance has had a generally good reputation since its beginnings, and many people have faith in its ability to contribute to the solution of poverty and related problems, such as inadequate education and healthcare systems, hunger, gender inequalities and others. It is seen

as a mechanism for bypassing corrupt governments, promoting free markets and lessening the influence of centralized economies, and reducing the dependency of poor people (Snow and Buss, 2001, p. 296). However, there are certainly some criticisms of microlending programs that cannot be overlooked. There are also still many unanswered questions about how far the microlending phenomenon can go with regards to reducing poverty on a global scale. As Anton Simanowitz and Alice Walter point out, “Microfinance is reaching and having an impact on millions of poor people, predominantly women, but the boundaries of who microfinance can reach, and in what ways, have still to be explored” (Simanowitz and Walter, 2002, p.1). They also point out that while The Millennium Development Goals, set at the UN Millennium Summit, set an ambitious goal of “halving absolute poverty in the world by 2015,” there wasn’t a great focus on microfinance as part of the plan (Simanowitz and Walter, 2002, p.1). There is clearly still some debate as to whether or not microlending is an effective and worthwhile endeavor in the process of trying to end poverty. This debate will be discussed further later on.

The most famous microlending establishment is The Grameen Bank in Bangladesh. The word Grameen means “rural” or “village” in the Bangla language. It was started by Professor Muhammad Yunus in 1976, after he began thinking of economics differently—through the eyes of the poor—and trying to help local people in the village of Jobra. He had learned that the stool makers of Jobra were completely dependant on traders, because they had to borrow funds to buy the bamboo for their stools, and then only made two cents profit on each stool (Yunus, 1999, p. 49). His first small loan was for the amount of twenty-seven dollars, and it was enough for all of the forty-two stool makers and other villagers who were dependant on traders to pay back their traders and sell their products for a decent profit, therefore breaking the cycle of dependency on the traders and drastically improving the lives of the villagers (Yunus, 1999, p. 50). This gesture developed into a pilot project that soon became “a nationwide ‘bank for the poor’ serving 2.5 million people” in Bangladesh and was “adapted in more than fifty countries spanning five continents” (Yunus, 1999, p. ix).

The Grameen Bank focuses exclusively on the “poorest of the poor” by using a practical screening process to select clients who meet a clear set of criteria for eligibility; by assigning priority to women; and by gearing its delivery system specifically to meet the economic needs of the poor (Grameen Communications, 1998). Borrowers of the bank are organized into small, homogeneous groups. This structure increases solidarity among borrowers and encourages them to participate in decision-making processes. “At first only two members of a group are allowed to apply for a loan. Depending on their performance in repayment the next two borrowers can then apply and, subsequently, the fifth member as well” (Grameen Communications, 1998). Field workers from the Grameen Bank are required to meet with these five-person group centers on a weekly basis. This keeps the lines of communication open between the bank and its clients. Many specific policies ensure that the credit program runs smoothly and that the allocation of loans is reasonable. These policies are specifically suitable for the poor. They include: loans are only for very small amounts and there is no collateral; loans are repayable in weekly installments over a period of a year; and eligibility for subsequent loans is based on repayment of the first loan. Also, loans are given to borrowers for use in starting up “self chosen, quick income-generating activities which employ the skills that borrowers already possess” (Grameen Communications, 1998). There is also a great deal of transparency in loan transactions, almost all of which happen at the Center group meetings. There is an emphasis on borrower responsibility, and the group structure provides an environment of peer pressure that makes borrowers more likely to pay back loans.

The Grameen Bank has a social development component, as well. There are sixteen “decisions” that all borrowers accept when they take out a loan. These decisions are aimed at raising the social consciousness of borrowers, making the loans part of a bigger community development project. The Bank also works towards social development by focusing “increasingly on women from the poorest households, whose urge for survival has a far greater bearing on the development of the family,” and by encouraging the groups’ “monitoring of social and physical infrastructure projects - housing, sanitation, drinking water, education, family planning, etc.” (Grameen Communications, 1998). Today, ninety percent of borrowers are women (Grameen Communications, 1998). The decisions made about policies and practices are generally decentralized and are greatly specified to accommodate the individual communities of borrowers. There is an extremely high rate of repayment, and the Bank has generally been considered extremely successful.

Many other microlending programs and organizations have been modeled after the Grameen Bank, with various differences, and most have been considered successful. For example, in the Dogon region of Mali, West Africa there are several microfinance organizations called *caisses villageoises*. These began as programs run by the Centre international de développement et de recherche (CIDR), a French NGO, but the structure of the program is such that the programs become self-managed and sustained through village savings over a period of six or seven years (Chao-Béroff, 1997, p. 94). The NGO is phased out so that the village is independent and economically better-off. Each *caisse villageoise* is autonomous from the others, as well, which means that each can survive even if the others cease to exist. None of the money leaves the individual villages through the program (Chao-Béroff, 1997, p. 99). Rather than having small groups of borrowers, the *caisses villageoises* are set up such that the entire village actually owns the program. In fact, the success of the programs were partly attributed to their strong traditions of solidarity and “social cohesiveness of their villages” that helped them work together to make the programs run smoothly (Chao-Béroff, 1997, p. 95). The programs have been extremely successful, with only two out of the 56 *caisses villageoises* created in the first nine years having been closed down, and with a repayment rate that has always been over 98 percent (Chao-Béroff, 1997, p.87). The operating rules of the *caisses villageoises* were set up in a flexible way, so that village members can customize the program in their village. The *caisses villageoises* are also different from the Grameen Bank in that they begin with a training program for village leaders that provides them with the understanding of how the *caisses villageoises* are meant to work, and with the skills to make them run smoothly, such as bookkeeping and business skills. After this training period, the external representatives from the NGO refrain from intervening when the members of the village are having a difficult time making decisions or solving problems. This is all part of the phasing out process that leads towards the autonomy of the *caisse villageoise*, and seems to be very effective. Muhammad Yunus explains part of the reason why the Grameen Bank operates without a training session:

I firmly believe that all human beings have an innate skill. I call it the survival skill. The fact that the poor are alive is clear proof of their ability. They do not need us to teach them how to survive; they already know how to do this. So rather than waste our time teaching them new skills, we try to make maximum use of their existing skills. Giving the poor access to credit allows them to immediately put into practice the skills they already know—to weave, husk rice paddy, raise cows, peddle a rickshaw. And the cash they earn is a tool, a key that unlocks a host of other abilities and allows them to explore their own potential. Often borrowers teach each other new techniques that allow

them to better use their survival skills. They teach far better than we ever could.
(Yunus, 1999, p. 140)

This is an example of the types of discrepancies that exist among various microcredit programs and the ideologies behind them. The basic idea is more or less the same, and the focus is usually on women, but the programs differ drastically depending on the geographic area and the people involved.

Microfinancing programs and organizations have faced many challenges along the way, despite their many successes. There are challenges in working intimately with groups of people who may not be accepting of the presence of the organization. There are also tensions that arise within communities trying to run microfinancing programs, and power relations, particularly with respect to gender relations, are often altered because of the microfinancing program's focus on women. Microfinance organizations rarely make money and often have a difficult time staying afloat because of the time and money it takes to dispense and track relatively tiny loans (Engardio, 2003, p.40). There are also many challenges in figuring out if and how microfinance could be part of a comprehensive set of solutions that would drastically reduce or end poverty on a global level.

In spite of the many reported successes with microcredit in developing countries since the 1970's, there are still many people who remain skeptical about its ability to have a large-scale impact on poverty. Some economists feel that there are few studies on microcredit that use "sizable samples and appropriate frameworks" (Blackstock, 1999, p.23). Many people question whether programs loosely based on the Grameen Bank are really having the same impact as the original, because very few studies have been done on imitation programs, and it is not clear which aspects of microcredit programs are the most effective (Snow and Buss, 2001, p. 301). Some critics outright condemn microcredit organizations like the Grameen Bank for their approach, saying such things as, "The kind of micro-credit they promote isn't about really about gaining control, but ensuring the key beneficiaries of global capitalism aren't forced to take any responsibility for poverty" (Blackstock, 1999, p. 23). There are also some people who have been involved with microcredit and claim that it's not everything it has been made out to be. For example, Sarah Blackstock quotes a micro-credit borrower in Bangladesh as saying "We don't move up like the NGOs promise. Micro-credit keeps us going in circles. But no-one wants us to say that. All they care about is that we make our repayments and follow the rules" (Blackstock, 1999, p.23). This sentiment reflects one of the main concerns about microcredit. Only a relatively few businesses started through microcredit generate enough money to stand on their own without continuous help of the microcredit programs (Engardio, 2003, p.40). This raises issues of dependency that lead many people to wonder if microloan borrowers are significantly better off than without the credit. There are clearly several concerns and questions regarding microfinance and its impacts on a local and global scale. Many of these concerns will be represented by the various players in the following case.

Case:

A new transnational NGO from England is looking to set up a microfinancing program in a rural village in Sierra Leone in West Africa. Sierra Leone was chosen as the area in which to work because of its extreme poverty and political instability. In 2003, the United Nations named Sierra Leone as the "least livable" country in the world, based on annual gross domestic product (GDP), quality of life, and economic vulnerability (Family Education Network, 2003). The

average annual income is US \$140, and the life expectancy is only 33 years for men and 35 years for women (BBC News, 2003). Sierra Leone has just emerged from a civil war that lasted over a decade, and the country is trying to reconstruct and face the continuing problems of poverty, tribal rivalry, and official corruption that were leading causes of the war. Even though the country is rich in diamonds, there is severe political instability that has greatly hindered economic development (BBC News, 2003).

As part of the NGO's efforts to be socially conscious and respectful of the citizens for whom it is trying to provide aid, the proposed coordinators of the program have traveled to the village in Sierra Leone to present their ideas, and they've asked various groups from the area to bring questions, concerns and ideas. The meeting is open to the public. Their hope is to have members of the community decide whether or not the program should be established in their village and to help design the program if it is approved. Because of the severity of the political instability over the past several years, rural villages in Sierra Leone have been virtually isolated from the microlending trend, and few NGOs have been able to enter the country to help. As a result, this gathering to discuss a microlending program has caught the attention of many people and groups. Many members of the community have decided to attend the meeting, and there are representatives from several groups wishing to make a statement at the gathering. Groups represented, in addition to the NGO from England, are the government of Sierra Leone, a local NGO, a group representing the concerns of local women, a group of local men and a group of elders.

The English NGO speaks first, presenting its ideas and background information on microlending programs. The floor is then opened for each group to speak. Each group has a distinct position with regard to the proposal and questions raised by the English NGO, and each group has several questions, concerns and ideas of its own to bring to the discussion. The ultimate objective of the meeting is to decide whether or not the microlending program would be appropriate for this village, and if so, to come up with a basic design for how the program would work.

English NGO and the National Government of Sierra Leone:

The NGO from England is very concerned with being respectful of the community in which it is trying to establish the microlending program. The NGO is new to the area, and its representatives are still trying to familiarize themselves with the local culture. Representatives from the organization begin the meeting by thanking the members of the community for their hospitality. They then share their ideas for the proposed program. They describe in detail the Grameen Bank and caisses villageoises programs, explaining that they would like to base it on these ideas but that there are many variations on the model and that the members of the village would have a lot of say with respect to how this program would be run. They do mention, though, that a focus on women would be highly encouraged, because women are "disproportionately represented among the poorest in society and need more help than men in securing sustainable livelihoods" (Leach and Sitaram, 2002, p.575).

They explain that they have received a large grant that would get the program up and running and support it for at least the first three years. There are also many other opportunities for obtaining funds in England, and they believe that if the microlending program is designed well and run effectively, it should be able to sustain itself perpetually after it has been established for a while. They understand that the sustainability of the program will be a concern,

but they are confident that there will be enough resources to keep it going for the long term.

They discuss the organizational aspects of the proposed program, and tell the members of the village that it would be up to them to decide how they want it run. They can base the new program on any combination of components from current microlending programs and can develop new systems and policies that are designed specifically to address the needs of this village.

Despite the challenges they know they will face in developing this program, the NGO representatives are extremely confident that the small loans will make a big difference for the people in the village.

The English NGO has the support of the national government of Sierra Leone. In attendance at the meeting to support the NGO is a representative of President Ahmad Tejan Kabbah who was elected to a new five year term in May 2002 and “is credited with bringing in foreign assistance to rescue his country from itself” (BBC News, 2003). The national government believes that the proposed microfinance program would be a wonderful step for the village to take. The government is interested receiving all the help it can get from foreign organizations, and would like to see the English NGO develop and run this program with the intentions of expanding to provide microlending programs and other services for the people of Sierra Leone.

The government respects that the English NGO would like to let the people of the village make the decisions regarding how the program will be designed and run, but the government itself suggests using a model that parallels that of the Grameen Bank, and the NGO will certainly take this into account. Because of the extreme poverty in the region, the president feels that developing a program with the goal of phasing the English NGO out of the process would be unrealistic. Because of civil war and the extreme circumstances in Sierra Leone, the communities don't have the same type of stability and solidarity as those in the Dogon region of Mali, where the caisses villageoises have been successful.

The government wants the NGO's program to be successful, and has hopes of becoming part of a large-scale solution to the country's problems. They do have questions about the plans for sustainability and growth, and hope that someday the loans will be bigger and will available to more people in the country. Thus, the English NGO and the government of Sierra Leone have come to the meeting together to discuss the proposed program with the people of the village.

Local NGO:

The local NGO consists of various concerned citizens who have been trying to help their village overcome various problems without the help of outside organizations. They are aware of microlending programs and have heard of the many success stories, but wonder whether or not it is as good as it sounds. They also agree that women are at a disadvantage and are in favor some type of programming that focuses on the education and health of women and children. They are interested in the financial resources that the English NGO speaks of bringing to their village, but they are skeptical of the proposed program and the organization. The local NGO feels that microlending should not be a top priority, and that food, water, healthcare and education should be focused on first. They fear that the English NGO doesn't understand the community or its people, and that it will be unable to address their specific needs. They question the motivation of the English NGO and suspect that they may have selfish reasons for developing the microlending program. They see no incentive for the NGO representatives to be loyal to the village. They

also fear that the English NGO is naïve and doesn't realize the severity of the problems. The village has no school, no healthcare facility, very little food and no clean water. These people are truly the poorest of the poor, and their basic needs are not being met by their national government. Most of them have no money to begin with, which puts a savings program out of the question. Most of the people in the village are too concerned with survival to start up businesses and enter the global market. They imagine that when the English organization realizes the severity of situation, it will give up and leave, making the people of the village worse off than before, dependant on the English NGO and with crushed hopes of an effective program. They are also concerned that if a microlending program were to survive, it would push the citizens into a new cycle of dependency without making them better off. They are willing to listen to what the other groups have to say, but they are very skeptical of English NGO's ability to make a microlending program successful in rural Sierra Leone.

Even though members of the local NGO don't believe that the English NGO has the capability to change things significantly, they are thrilled that the national government has come to the meeting with the English NGO. They see the national government as a big part of the solution, as it is the government's responsibility to set up the infrastructure that will provide the village with education and healthcare systems, as well as clean water and access to better food. They have several suggestions for how the English NGO and the government can work together, combining the financial resources of the NGO and the government's knowledge of the country, to set up the necessary national development strategies that put the people of Sierra Leone in a position where their basic needs are being met. Only then will they be able to consider options such as microlending.

They suggest that the NGO refuse to give financial aid to Sierra Leone unless the government takes on some responsibility for helping local communities. The local NGO is aware that the government can get financial help from the World Bank and the IMF, and they would like to see more of this going towards programs and infrastructure that will reach people nationwide. If the English NGO promotes this and works with the government to effectively channel funds to rural communities, this will greatly help the people. There is lots of corruption in the government and funds are not allocated fairly. The local NGO would really like to see the English NGO have two projects in Sierra Leone – to work in the capitol with the government on national policies and development strategies, and to have some people working in the rural village to gain an understanding of the needs of the community and use that knowledge in working with the government and developing future programs. The goal of the local NGO is to convince the English NGO that working with the government will be much more beneficial to all of the people in Sierra Leone than will simply working in the village. They also want to argue that the problems of the community are too severe to be solved with a microlending program at this time.

Local Women:

A group of local women is at the meeting to show its support for the idea of a microfinance program in the village. They respect the views of the local NGO, but have not seen many changes as a result of their work, and they are more hopeful about the ability of the English NGO given its many resources, financial and otherwise. They agree that the government should be doing more to support people in rural villages, but they haven't seen this happen and doubt that changes with the national government would quickly and directly change the situation

of women in the village. They hope that the government's presence at the meeting means that they will truly take an interest in the village, but unlike the local NGO, they still feel that the microlending program through the English NGO is a very positive step to take. Many of the women have several children and they are concerned about the well-being of their families. They have heard stories of women learning to take better care of their families and become more empowered through microcredit programs, and they believe that if their program is successful, women in Sierra Leone will gain more power and help create wealth for their villages. They understand that microcredit programs can lead to a dependency on the NGO, but they are willing to take that risk if it means that they will be productively working to take care of their families' financial needs. They want to be able to take their lives into their own hands and support their children, whose basic needs are currently not being met. They have faith in the English NGO, as they have been excluded from credit programs set up by large banks, the national government and financial institutions. They are skeptical of putting too much faith into the government, even though it has taken an interest in the meeting, because it is very possible that the government is supporting the NGO's efforts so that it doesn't need to be responsible for the poverty in the village. The women are thus careful to hold the government accountable while supporting the English NGO and its program.

The women want other programs for social development to be run in conjunction with the microcredit program. They would like to see some basic infrastructure, including a school and a healthcare clinic, because they believe that in order to be successful and spend time working with the money from the loans, they need to know that their children are being taken care of. Money in the form of microloans alone is not enough to significantly improve the situation, and it would be great if the government and the English NGO could work together on such infrastructure projects.

After hearing the descriptions of the Grameen Bank and the caisses villageoises, the women are generally in favor of incorporating training programs into the microlending program. The women have never had training in business or finances, and while they feel that they are capable of running their own small businesses, they would like some guidance with respect to how to get started and how to make the most out of their loans.

The women also favor a model that sets borrowers up in small groups, and is overseen by the NGO, rather than being owned by the village. They fear that if the program were run by the village, they wouldn't have as much input with regards to the decisions made. The small group model is appealing because the women of the village are used to working together closely in the domestic sphere, and they feel that they would work well together in this type of situation as well. They have heard of programs where the women can take out a loan as a group and repay it as a group. They wouldn't mind being accountable as a group for the repayment of loans, because this is a less of a risk for each individual woman.

The women in general have a lot of faith in the proposed microlending program, believing that it would allow more women to participate in the market through fair trade networks, therefore increasing the wealth of the village as a whole, and eventually leading to a better situation for women on a national level.

Some of the local women have their husbands' support, but many of the local men do not share the opinion of the women.

Local Men:

The local men have showed up in large numbers to discuss the proposed program. They are in favor of some type of microlending program, but they feel that it should be geared towards the men rather than the women. After all, the men are the people with the experience in making decisions in the public sphere, and they are more capable of handling financial responsibilities. Women, on the other hand, are extremely valuable as homemakers. They are best at taking care of the children. With the women out working and making money, there would be no adequate care for the children and the values of the village would eventually disintegrate.

The men favor a model in which the program is owned and run by the village as a whole, with the village leaders taking on executive roles in the program. This would be consistent with the way village matters are dealt with, and it would keep the common goals and values of the village at the center of all decisions made regarding the program. Even though the women would not have traditional leadership roles, they would be able to take loans that are approved by the village leaders, and the program would help women indirectly by generating more income for the village as a whole.

The men are not in favor of a training program, because it is unnecessary. They have been making decisions for the village for many years, and while they have seen difficult times, it is not because they don't have the necessary skills. They feel that given the financial resources to start up the program, they could effectively tailor the program to fit the needs of the village, and it would be greatly successful in the long term.

The Elders:

The group of village elders is completely against the idea of starting up a microlending program in the village. They have seen the condition of the village go from bad to worse over time, and feel that this is largely due to Europeans' and Americans' involvement with Sierra Leone. For decades, Westerners have come to the area for diamonds and other resources, and they have left the people of the region worse off each time. Westerners have proved to have no loyalty to the people of Sierra Leone, but rather a selfish desire to make a profit off of the country's resources and cheap labor. The English NGO is no different to them. They strongly believe that there must be an ulterior motive for beginning the microlending program, and they are certain that the presence of the NGO will disturb the way of life in the village. They recognize that the village is desperate, but they see no possible way that the English NGO can help them effectively. The English don't understand the values of the village, and they don't understand that money alone will not solve its problems.

The elders believe that microloans will encourage members of the village to fend for themselves rather than keep the interests of the village in mind. This is not the way to solve their problems. There has been enough division in the country because of the civil war, so now the people need to focus on working together. The people in the village have been drifting away from their traditional values and customs, and it is crucial that they get back to those traditions in order to make things better.

The elders have thus come to the meeting to convince the local NGO and the national government to bring some resources to the village and establish locally-based programs. They don't need help from England to take care of them. They need help from their own government, and they need the people of the village to work together for the sake of the village.

The elders are very well respected within the community, but the younger people of the village are desperate and feel that it is time for a change in a new direction. For the most part

they see hope in the NGO from England, so the elders have a lack of community support for their position.

The Meeting:

All of the groups and many members from the community have gathered for the meeting. They discuss their ideas, and try to reach a plan for what will be their next step in trying to improve their quality of life. By the end of the meeting, they hope to have decided whether or not the English NGO will be involved with the village, and if so, in what ways. If they decide to accept the microlending program, they will decide how it will be structured and run. They will also try to address the concerns of all of the groups present.

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