

Wider Impacts of Microfinance Institutions: Towards defining the scope and methodology

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Executive Summary

The theme of wider implications of microfinance institutions' interventions is a relatively uncharted territory, though the term is alluded to quite frequently. The interest in this theme has emerged out of a number of motivations. One important view underlying such motivation is that the total impact of microfinance intervention is being underestimated through the conventional impact studies. It is alleged that the latter do not take into account of the possible positive externalities on spheres beyond households and the subsequent feedback effects on both participant and non-participant households. This assumption, we argue, is driven by a conceptualization of total impact consisting of two mutually exclusive impacts--- narrow and wide. Yet, we argue that, what is conventionally termed as 'narrow' impacts can be perceived as a reduced form expression, incorporating all secondary effects arising from households' (participants and non-participants) engagements with various market and non-market institutions. Analytically then, it becomes difficult to pursue the wider impact theme and yet recognize that individuals and households are the expected beneficiaries of all program interventions.

The first section in this paper discusses this problem and posits two alternative approaches to define the scope of wider impacts. It is proposed that within a narrower perspective, one may examine individuals'/households' multi-dimensional engagements at meso and macro levels and assess the subsequent changes at these levels. This would be the logical first step towards assessing wider impacts. This is not to undermine the need to assess the feedback effects of 'wider' impacts on households, especially on the poor. However, as discussed in the following sections, a shift in focus away from households to meso/macro levels broadens the scope of wider impact theme. It allows exploring impact pathways and how these interact with wider structures---many such issues do not immediately lead back to households and are yet to be addressed seriously in the existing microfinance impact assessment literature.

Section II also lays out a basic conceptual framework for assessing wider impacts of microfinance institutions. We propose four different domains in which wider impacts may be examined - cultural, economic, social and political, each of which has its counterpart at the narrow micro level (individual, enterprise or household level). At a wider level, each of the last three domains deals with relations - within the civil society and between civil society and state; while wider elements of culture underlie most of the observed relations. It is proposed in Section II that wider impacts on each of these domains be assessed at three levels - local, regional and national. We discuss these impact domains and interrelationships between them and towards the end of the section, provide a list of themes that may be included under each impact domain. We have approached this theme list as a work-in-progress that leaves considerable scope for inclusion and exclusion over the course of developing a methodology.

Discussion in Section II approaches impact domains from a general perspective, and therefore provides a generic typology, which may apply for many other kinds of program interventions. Section III extends the discussion to the specific context of microfinance. It provides a schematic categorization of the various intervention areas of microfinance institutions and links these to the wider impact domains. Since provisioning of financial services is the core activity of the MFIs, expositional bias towards economic domain could not be avoided. However, the activities undertaken by a microfinance institution, especially in countries where both the private and the public sectors lack competence in forging economic activities involving numerous producers and consumers, are much more than just providing financial services. We argue that these 'wider' involvements of microfinance institutions are logical extensions of some very important strategic capital MFIs have accumulated in the course of their microfinance operations, and should be included as relevant topics of examination under the wider impacts theme. More importantly, not incorporating these 'new' roles of microfinance institutions within the wider impacts theme would be denying the ground realities of microfinance institutional dynamism, which has surfaced in Bangladesh and may arise in other countries as well. However, we have been explicit about these wider roles of microfinance institutions and those who are inclined to focus on more conventional activities of microfinance institutions can do so.

Given the open-ended nature of the current discourse on wider impacts, it will be premature to indulge in detailing study designs on this theme. The concluding section therefore sketches some exercises, which may be undertaken to study certain important areas of wider impacts. They should be read more as elucidation of the proposed framework for discussion, improvement and eventual translation into practice.

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Section I

Introduction¹

Microfinance institutions do not operate in a vacuum - it is another player in the multifarious landscapes in which it operates, impacts and is in turn impacted upon. The effects its services have on its users are realized through the latter's manifold engagements with various economic and non-economic institutions. These engagements and impacts are iterative in nature having feedbacks involving adjustments, new arrangements and distributional consequences. Any exercise in the area of wider impacts needs to have this basic interactive framework in mind. This paper is essentially an attempt towards unpacking some of these interactive pathways with a view to suggesting a few indicative study-designs that future research in this area can build upon.

The theme of wider implications of microfinance institutions' interventions is a relatively uncharted territory, though the term is alluded to quite frequently. The interest in this theme has emerged out of a number of motivations. One important view underlying such motivation is that the total impact of microfinance intervention is being underestimated through the conventional impact studies. It is alleged that the latter do not take into account of the possible positive externalities on spheres beyond households and the subsequent feedback effects on both participant and non-participant households. This assumption, we argue, is driven by a conceptualization of total impact consisting of two mutually exclusive impacts--- narrow and wide. Yet, we argue that, what is conventionally termed as 'narrow' impacts can be perceived as a reduced form expression, incorporating all secondary effects arising from households' (participants and non-participants) engagements with various market and non-market institutions. Analytically then, it becomes difficult to pursue the wider impact theme and yet recognize that individuals and households are the expected beneficiaries of all program interventions.

The following section in this paper discusses this problem and posits two alternative approaches to define the scope of wider impacts. It is proposed that within a narrower perspective, one may examine individuals'/households' multi-dimensional engagements at meso and macro levels and assess the subsequent changes at these levels. This would be the logical first step towards assessing wider impacts. This is not to undermine the need to assess the feedback effects of 'wider' impacts on households, especially on the poor. However, as discussed in the following sections, a shift in focus away from households to meso/macro levels broadens the

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Section II

Definition and Scope of Wider Impacts: Towards an Analytical Framework

2.1 Conventional Focus in Impact Studies: What is the Problem?

There have been numerous impact evaluations of microfinance programs across the globe. Many of these evaluations were motivated by the need of the donors to get inputs to their decisions on continuation (or, discontinuation) of support. It is therefore expected that the primary focus of these evaluation studies were on individual program impacts. Moreover, impact areas in these studies have normally been identified in terms of variables pertaining to individuals and/or households, a list of which is summarized in Table 2.1 below.

Many of these individual/household level variables may however be aggregated to arrive at community-level statistics. For example, income or expenditure based poverty measures or inequality index are essentially aggregations² derived from household-level consumption, income and expenditures. Such aggregations are used in arriving at all outcome variables of impact³. However, given the predominance of cross-sectional comparisons between "participants" and "non-participants" and between 'program' and 'control' villages, most studies focused on examining the differences in such aggregations across the two sub-samples and failed to address the implications beyond household levels. Furthermore, such aggregations often failed to use appropriate sampling weights⁴.

There has been increasing unease amongst both development practitioners and researchers with the 'narrow' focus on individuals, enterprises and households in most impact assessment studies. There are several reasons for this unease and it is worth discussing them briefly.

² By aggregation, we do not mean merely linear addition of individual/household level outcomes. It involves derivation of proportions as well as more intricate mapping from R^n to R^1 . See Annex A for elaboration on this.

³ For example, change in average (per capita or per household) income of participants is compared with that of non-participants to infer on program impacts. Such averages are derived from household level information. We provide a conceptual note on the topic of aggregation and its relations to wider impacts in Annex A.

⁴ In many of the empirical studies, samples are not drawn randomly, nor are they proportionate in case of stratified samples. In many such studies, sample statistics are reported which are arrived at without assigning appropriate sampling weights. Thus, unweighted sample averages reported may not represent the population statistic.

Table 2.1: Impact Areas (Variables) Used in Existing Impact Studies

Variables	Individual	Household	Remark
Income (by sources)		✓	Income distribution and income-based poverty
Expenditure (on major heads)		✓	Same as above
Nutrition/food intake	✓		Extent of malnutrition at the community
Housing condition		✓	Proportion of households owning particular type of houses
Assets		✓	Percentages of households owning
Savings		✓	Averages
Investment	(Enterprise)		Return and productivity by activities; market opportunities
Participation in labor market	✓	✓	Participation rate; distribution of employment by activities, etc.
Incidence of self-employment	✓	✓	Distribution of employment by sub-sectors; net returns
Participation in informal credit market	✓	✓	Could be extended to linkages within credit market and changes in contracts
Access to public resources	✓	✓	Proportion availing particular resource; Social mobilization to better utilize public resources
Literacy and education	✓	✓	Proportions; Human capital
Knowledge and attitude	✓	✓	Proportions; Social capital
Practices in family planning	✓		Proportions of couples adopting particular practice
Health - incidence of disease	✓	✓	Proportions affected by various diseases; productivity loss; expenses; etc.
Access to health services	✓	✓	Proportions
Sanitation	✓	✓	Proportions
Women empowerment	✓		Perspectives, expressed as percentages
Intra-household distribution	✓		
Family/social violence	✓	✓	
Fertility	✓	✓	Population growth
Capacity to cope with crises		✓	Self-perception, expressed as proportions
Vulnerability to economic and social shocks		✓	Same as above
Social protection		✓	Same as above

Mismatch between micro-level achievements and less than proportionate changes at the macro/national level is one concern (Sobhan, 1999; Rahman, 2001) driving the interest in looking at the wider impacts of microfinance.⁵ This is especially true in countries such as Bangladesh where poverty remains pervasive, the microfinance industry mature and large, and the poverty alleviation promise of microfinance having a firm place in the development policy discourse⁶.

There is also an increasing recognition that the achievements of microfinance institutions have been underestimated due to failure in taking account of some of the 'wider' impacts. Increasingly, the issue of wider impacts is being raised in the literature; and many development practitioners also place their hope in finding further justification of their activities once studies on wider impacts are undertaken (Rahman, 1995). This is seen as the possible gains, which accrue to non-participating households and also to the society at large that go beyond individuals and households. There is also a concern that because of the pre-conception that impacts are induced by programme-inputs, exercises on impacts at even household level fail to explore some of the unexpected impacts occurring at that level⁷. Moreover, many of the studies, it is also argued, had narrow focuses in the sense that they looked into impacts of individual programs or comparisons across them (Khandker, 1999), and did not address impacts due to presence of several MFIs in the same market/area.

Since the broad direction of narrow impacts (at individual and household levels) may be worked out *a priori* from economic analysis, questions have also been raised on the need for big-budget narrow impact studies (Adams and Vogel, 1985; Zohir *et al*, 2001).

However, there is much ambiguity with the usage of the term 'wider', and one needs to concretize the concept prior to undertaking any research on wider impacts.

5 Interestingly however, two completely opposite perspectives may arise from the same concern. One may consider the micro-level impacts assessed under the narrow studies to have upward biases since changes in meso variables may be undermining the initial micro-level changes after adjustments. Alternatively, one may consider the number games in arriving at macro aggregates to be inadequate. The latter has underlain several exercises to show contribution of microfinance to gross domestic product (Alamgir, 1997; Mallick, 2000).

6 Top management of the leading Microfinance Institutions in Bangladesh have had important positions in several Interim Governments and have influential roles as poverty focused policy advocates. Meta level institutions such as the Palli Karma Sahayak Foundation (PKSF) not only functions as a microfinance apex body, but is also actively involved in various areas of development policy discourse in Bangladesh.

7 However, conceptually, it is not easy to incorporate such 'missing' impacts at the household level as 'wider impacts' and we argue that progress along the theme of 'wider impacts' would benefit more pursuing a 'beyond household level' approach.

2.2 Defining 'Wider' as Opposed to 'Narrow': Existing Views

The Terms of Reference for this study mentions the following in describing the scope of 'wider' impacts:

Easiest perhaps is to define them (wider impacts) by what they are not. In this approach wider impacts are those programme effects that do not operate primarily at the level of the individual member and her household. (p. 3)

From such a perspective, which is quite common, 'wider' is perceived as all other impacts, which are not included within the narrow focus. In other words, the two sets of impacts, i.e., narrow and wider, are mutually exclusive and their union together constitutes the full set of impacts. While the need to look beyond individuals and households is rightly emphasized, we take a different approach in conceptualizing wider impacts. Before delving into that, we provide a brief discussion of the prevailing concepts underpinning 'wider' in some of the existing literature.

A number of ideas in approaching the problem of defining 'wider' emerge from reading the literature on wider impacts, which is still at its infancy. For example, Woller and Parsons (undated) mentions, "Impact can theoretically occur at four levels: the enterprise, the individual, the household and the community".⁸ Their focus on community-level impacts, which includes both direct and induced effects, is one kind of 'wider' impact under consideration in this paper.

With a different connotation, 'community' is subsumed in 'local', coined by McGregor (2000). He develops a matrix between *levels* and *types* of impacts, which identifies three *levels* at which one might explore wider impacts: local, regional and national. McGregor considers four *types* of impacts, which can take place at all the three levels. These four *types* of impact are economic, social, institutional, and at policy level. McGregor focuses on the impact *types* and argues that there are differences in the research questions and in the methodology associated with each of the impact *types*. He also sees 'wider' impacts as involving 'distant causation effects', which is distinguished from 'direct causation effects' associated with 'narrow' impacts.

2.3 Wider Impacts: Towards an Analytical Framework

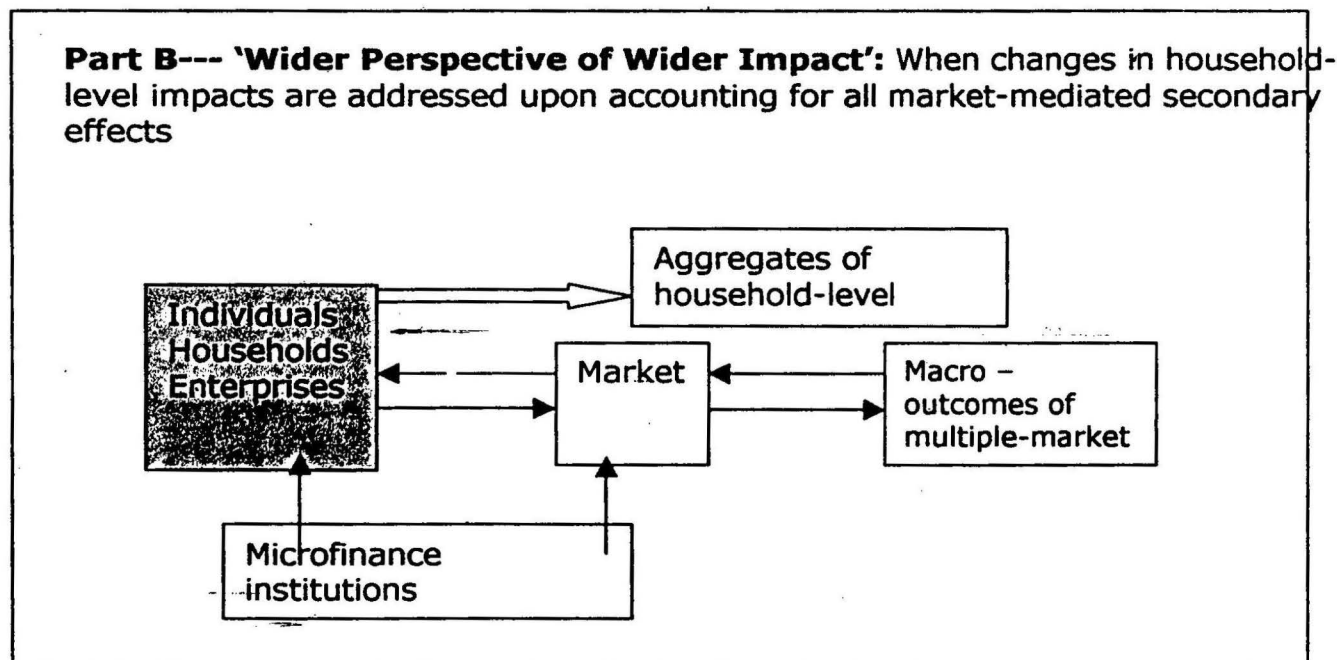
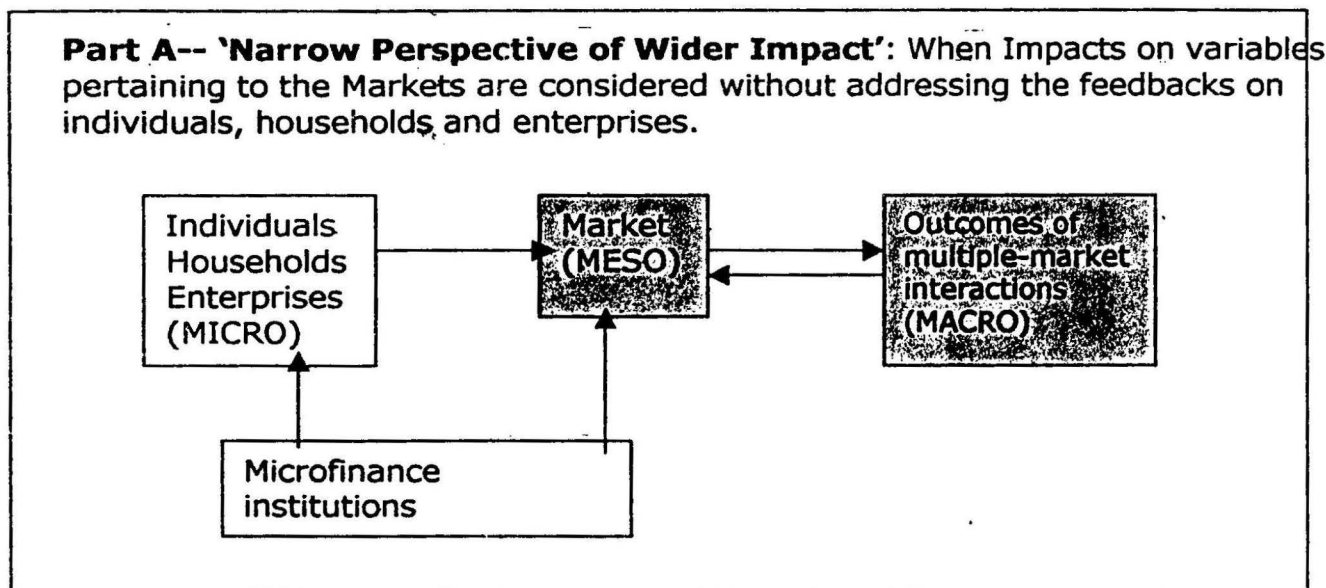
Two important dimensions in identifying the scope of wider impacts have been noted in McGregor – substance (which McGregor identifies as 'types') and space (what McGregor identifies as 'levels'). In McGregor's example on economic impacts, there is further elaboration on what may constitute the scope of a study on wider impacts. He notes that,

'These (economic impacts) are types of impact that are mediated primarily through the intervention on markets.' (p. 3).

⁸ Depending on the definition one chooses for 'community', appreciation of such an assertion would vary.

There is however no clear indication as to what the end subjects are on which the impacts are being studied – are they households, or, are they market and non-market institutions? Exploring this issue forms the point of departure for the way in which we conceptualize 'wider' impacts in this paper.

Figure 2.1: A Local Level Cluster of Economic Activities



To present the problem more clearly, Figure 2.1 explores the issue in the context of wider impacts in the economic domain, though the basic framework can be extended to conceptualizing other impact domains as well, which we do in the Section 2.4.

The two parts of Figure 2.1 suggest two possible ways of defining the scope of wider economic impacts, which are sequentially linked. Each of the boxes captures a cluster of economic activities at any given *level*. The micro-unit consisting of individuals, households or enterprises are directly influenced by the MFIs, which subsequently effect their participation in one or more markets. In many instances, presence of one or more MFIs in a locality (or at higher levels) directly influences the outcomes in these markets. Thus, say, a study on wider impacts at the local level, according to part A of the figure, would look into changes in individual markets; and at the macro economy (within the local level), which is defined as the outcomes of changes in a set of interlinked markets (e.g., relative prices of all goods and services).⁹ A number of such local level clusters, in unison, would define a regional level (and, subsequently, national level). However, moving from local to regional (or, from regional to national) would involve not only accounting for the effects of horizontal market interlinkages, but also vertically linked ones, which may only be defined at a regional level (or, national level).

The first approach, as depicted in Part A of Figure 2.1, would only consider the effects on all markets, in isolation as well as within a macro economy, defined as a set of interlinked markets. In this approach, subsequent effects of market changes on households' well being are not addressed explicitly. This definition of 'wider' clearly stands out as one, where the focus is outside such micro units as households and enterprises. Examining this version of 'wider' impacts, we feel, is the first logical step towards assessing wider impacts. This step precedes capturing all secondary effects, mediated through markets, which shape the end outcomes at the individual or household levels depicted in Part B of Figure 2.1. It is important to note an important departure in our analysis from the current trends in the literature. We had noted the distinctions made across types (i.e., domains) of impacts and the levels of impacts. The description in Figure 2.1 considers only one type of impact – economic, and considers only one level – local; and yet, meso and macro levels are distinguished from the micro (household-enterprise) levels. The latter distinction persists at all three levels – local, regional and national – that are conventionally defined. Thus, focus on local or regional levels do not automatically ensure a "wider" focus – since all these levels also include households. Rather, for each of these three levels, the first version of wider economic impact would look into meso and macro levels, which are beyond households. Interestingly, the second version may only be comprehended only at the highest possible level, which accounts for all possible interactive forces. At an empirical level, one may however associate a higher level with a longer period of time for impacts to be felt at the household levels.

⁹ There is much abuse in using the term macro. We differ with the casual reduction of the term to imply national level aggregates of household data (see Part B in Figure 2.1). In the sphere of economic impacts, macro level is identified as one, which includes all markets and their interlinkages. Thus, macroeconomic variables are the outcomes of a "general equilibrium" type multi-market analysis. Note also that such a macro can be identified at the local level as well. However, markets at regional and national levels, which are vertically placed at higher levels, also influence the outcomes in local markets. Therefore, the macro, defined at local level will be truncated in some sense. This is however true even in the case of a national economy, which is open to the global economy.

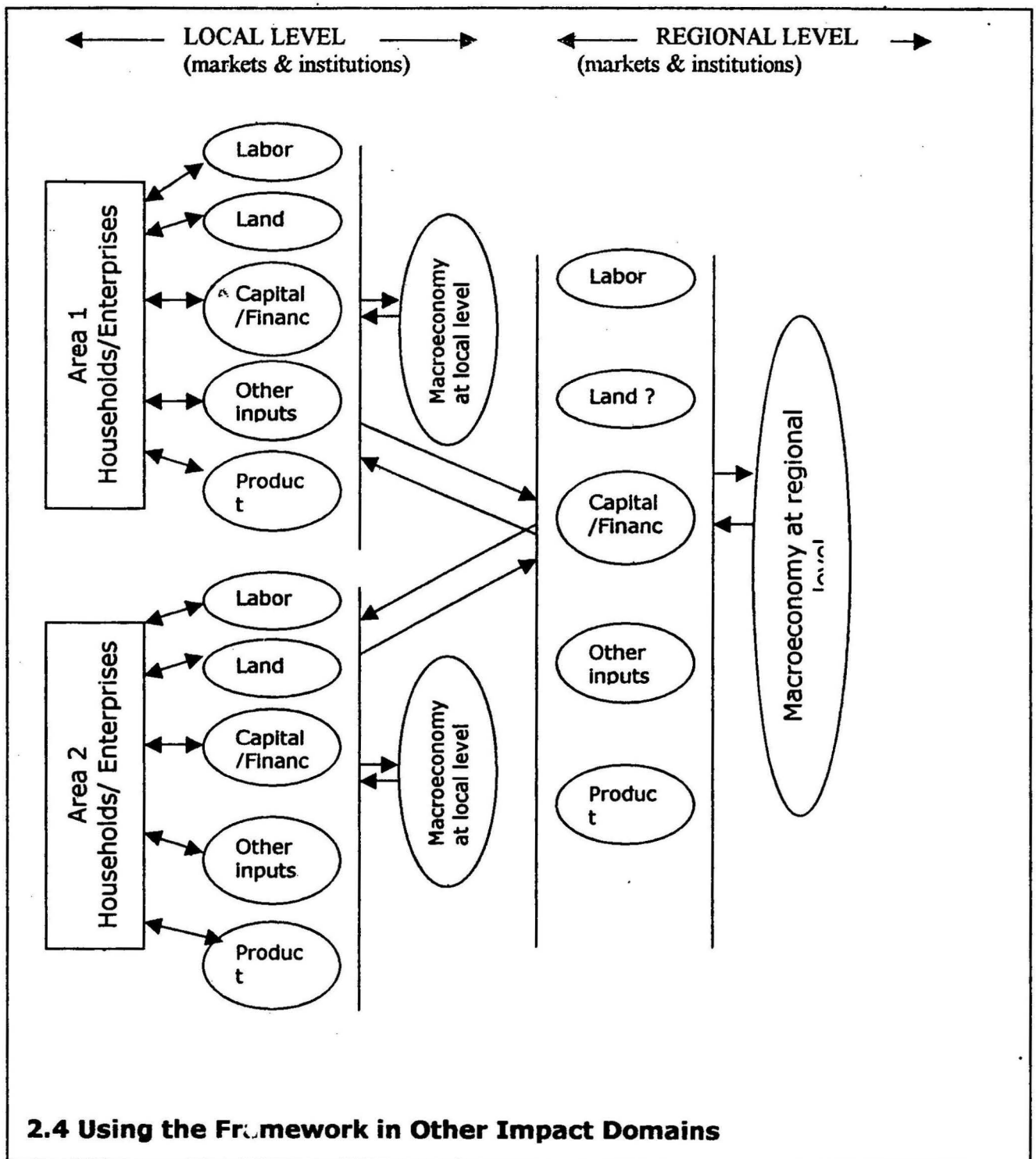
The second approach to wider impacts takes account of all the iterative feedbacks between micro units (individuals, households and enterprises) and the markets (individual ones as well as all together), and assesses the impacts on individuals and households. This way of approaching the concept of 'wider' impact raises the obvious question: if the focus of the exercise remains on individuals and households, how does it differ from the traditional 'narrow' focus of existing impact studies from which a departure is being attempted? We argue that in terms of the focus, there isn't a difference – and one may distinguish the two only in terms of the methodology involved. Many of the impact assessment studies, which are perceived to be 'narrow', captures the net changes at individual and household levels, even though the causations remains unclear in these studies. For example, changes in income of a household over a period of time include those mediated through markets as well during a reference period¹⁰. Many of the so called 'narrowly' focused impact studies infer from such change variables, even though most do not show how those changes are brought about.

In the proposed framework, we have identified levels not only in the traditional sense of space, but distinctions have also been made within each level across activity space (micro, meso and macro in economic domain). Furthermore, we have posited two alternative ways of identifying the scope of wider (economic) impacts, as shown in the two parts in Figure 2.1 – narrower and the wider views. Given the historical context within which the urge to address wider impacts has emerged we feel that the narrower definition of wider impacts be addressed first. This is what we use as the analytical framework to elaborate on the scope of wider impacts for the various types of impacts. In the field of economic impacts, for example, this would require looking into impacts of microfinance on individual markets and on all markets simultaneously, as depicted in Figure 2.2. These impacts may be seen at the three levels as mentioned by McGregor.

Our emphasis on the narrower version does not imply that certain aspects of the household-level impacts (wider version) are less important. Traditional studies had excessive focus on participant household/members; and therefore, may have under-estimated the total impact. Given the universal fact that interventions rarely remain confined to the initial target groups; and technology diffusion may be quite fast ensuring greater benefits to the non-participants, studies estimating benefits by comparing participants and non-participants are more likely to underestimate the benefits. It is therefore important to separately look into the impacts on non-participant members and households. This aspect has been separately discussed in this paper.

10 Though most existing impact studies are cross-sectional in nature, they implicitly assume that the 'programme' (participant) and 'control' (non-participant) households were similar prior to interventions and the observed differences between them arose over the period of the intervention.

Figure 2.2: Multi-market Effects: An Illustration



2.4 Using the Framework in Other Impact Domains

So far, we confined to areas of economic impacts to lay out our concept of wider impacts, as distinct from conventional narrow impacts, and had discussed possible variants of wider impacts. Similar to McGregor, we also feel the need to distinguish

between various types of impacts and consider four broad areas of impacts¹¹. We conceptualize the areas of impacts as domains/spheres each of which is characterized by a set of relationship/engagements and changes in them.

Impacts on the *economic domain*, for instance, embody the changes in the engagement between households and various markets. Impacts that belong to the *social sphere* are changes in the social relations between individuals and between groups of individuals living in a society. Impacts on the *political domain* are those that capture the changes in the engagements between the households and civil society with the State and its agencies.

We include impacts belonging to the *cultural domain* as a separate impact type, even though one may perceive it to be an underlying theme across all the other three impact- domains. We do not view culture as a set of static human practices and attitudes, which often are alleged to "explain" the unexplainable. We define its scope broadly to include issues such as norms and attitudes governing all kinds of human relations in the society. Impacts belonging to the *cultural domain* are thus changes in the perceptions, values and norms governing the relations in all the other three spheres¹². We elaborate below the parallel discussion on wider impacts for the non-economic domain, and discuss each of them separately in the following sub-sections.¹³

In elaborating the economic domain, we introduced three tiers - household/individual, market (meso) and macro - at each level. The domain itself was largely defined by market exchanges, and we did not have to resort to any specific assumption on the nature of the market. While government is an important economic agent, who may directly participate in a market or intervene in the functioning of a market, we abstracted from direct government participation and choose to include economic policies and civil society effort towards changing those policies within the domain of politics. As noted before, there is a close correspondence between the approach suggested in addressing wider economic impacts and that proposed for non-economic domains. As shown in Figure 2.3, 'markets' are replaced by 'organizations' at the meso level. However, there is one important difference in the two approaches: markets in economic domain are not only institutions where households interact, they also define the areas of economic impacts, such as, prices, wage rates, allocations in the land rental market, etc. The ~~same~~ does not apply in cases of non-economic domains - in cases of the latter organizations are instruments of bringing in changes in spaces (social, political and

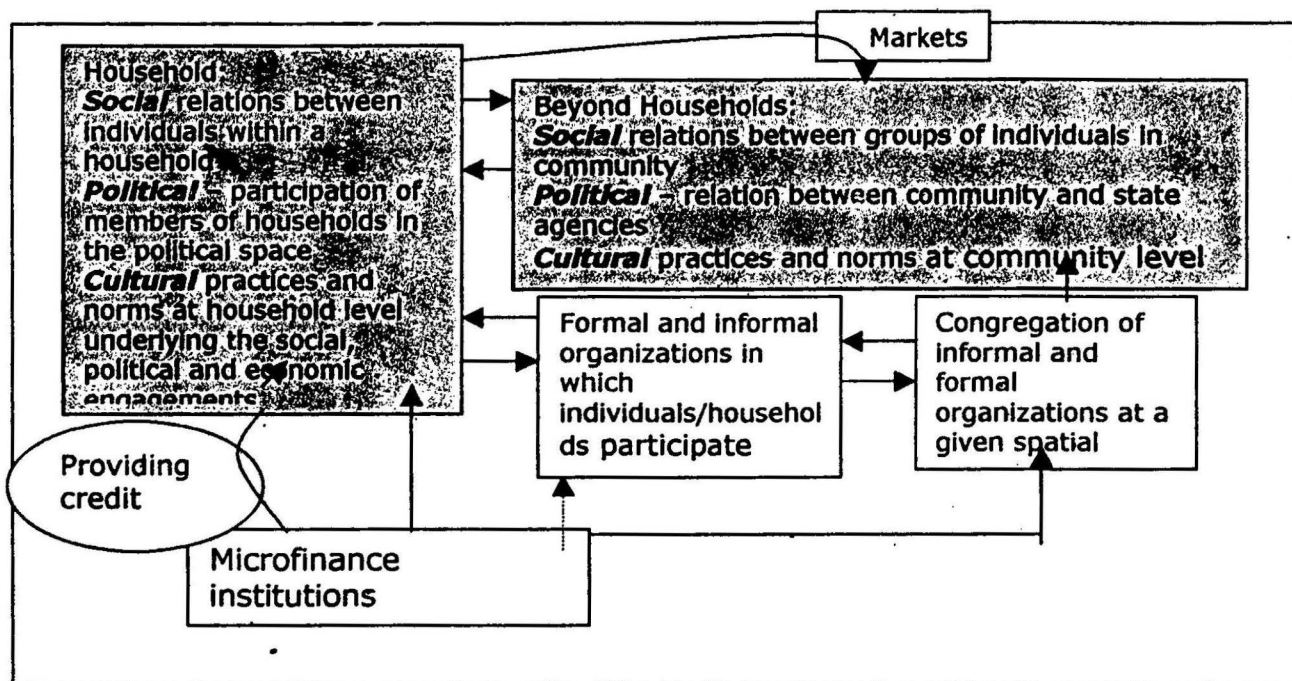
¹¹ McGregor had included institution as one of his four types, and its importance as an area of wider impact cannot be over emphasized. Facets of institution however arise in all the four areas we mention. We therefore do not add it in the list, but address it in our discussion on all the four areas.

¹² One could argue that there are impacts pertaining to the cultural domain, which are independent of the other three domains. For example, one may identify elements of culture also at the household level. For the purpose of our paper we restrict our attention to outcome variables and processes, which arise in governing the relation in the other three domains.

¹³ It is worth noting that some view economic impacts to be narrow, and therefore, coin the term 'wider' to refer to those non-economic impacts which are beyond households and individuals. We do not subscribe to such view since, as already noted, many economic impacts go beyond households and individuals.

cultural) defined independently. However, as in the case of economic domain, the non-economic domains may be defined at the household, community and regional or national levels. The nature of organizations involved would vary accordingly.

Figure 2.3: A Local Level Cluster of Non-Economic Activities



2.4.1 Wider Impacts in the Social Domain

Conventional studies on impacts at household levels generally define the domain of social impacts in terms of all those variables, which cannot be readily measured in financial terms and the impacts of which are of longer term. Thus, they have not only included all those aspects which refer to social relations between individuals (as in the case of intra-household relation, including gender), but have very often, included the so-called 'social sector' variables (such as, housing quality, education, health and sanitation).

For at least two other reasons, the development practitioners increasingly focused separately on the social sector. First, there were (and still are) ample cases of market failure, calling for intervention of the non-market agencies to deliver the social services. Moreover, the public good nature of some of these services justified the connotation of the term 'social'. A second plausible reason is the fact that the household level economic (financial) variables did not have any unique correspondence with these so called social variables; and yet the potential mixes of the two generated interesting dynamics for outlining the growth/development path

of an individual household¹⁴. Thus, independent effort to enhance the social sector has often been emphasized to break away from low-income equilibrium trap.

Strictly speaking these "social sector" variables may be argued to belong to the economic sphere in the sense that markets for these services exist¹⁵. Many of these so-called social variables may be linked up with service markets and may be addressed within economic type of impact. For example, an increase in demand for education and/or health services may be linked with the market for the respective service and one may address the wider impacts in ways similar to that outlined earlier for economic impacts. In spite of this conceptual difficulty, for the sake of continuity, we include these 'economic-type' of social services under social impact domain, even though the broad approach in addressing the scope of wider impact for such 'social service' impacts would not vary much from that outlined earlier for capturing wider economic impacts.

The prime focus of an analysis of wider social impacts should however be on social relations between individuals and between groups of individuals, living in a society. At the household level, characteristics of family, intra-family relations, including that of gender relations, are issues to be addressed under social impacts. Beyond households, wider social impacts would focus on changes in social relations and social organizations, and on relative strengths and weaknesses of different social organizations.¹⁶ The latter issues may be looked into at different spatial levels, as elaborated in the previous section on wider economic impact. A set of traditional social relations in rural Bangladesh, for example, were rooted in ownership of tangible assets, such as, land. Intervention by the MFIs may change the social relation, either by facilitating access to non-land resources independent of land resource base, or, by de-linking social relations from it being determined purely through economic resource base through conscientization. A concrete example that may fall in the realm of changing social organization is the change in the modality of *shalish* as a conflict-resolving institution as well as its composition and scope to make it more pro-poor and gender sensitive. Yet another example, as elaborated in Rao (2001) could be the extent to which microfinance interventions have been able to change the motives behind social expenses, such as in marriage, in moving away from conspicuous to what could be called 'cooperative' consumption, i.e. 'celebrations that are less about showing off and more about maintaining links across families, building bonds, and sustaining webs of obligations'.

¹⁴ It should however be emphasized that delivery of such 'social sector' inputs, such as health, sanitation, education, etc. often involved significant efforts in changing views, behaviour and perceptions about say health seeking behaviour, hygiene practices, attitude towards girl children's education, etc. These changes in values, norms and perceptions are according to our conceptual framework, wider level impacts occurring at the cultural domain.

¹⁵ These markets may be imperfect but that does not make these services 'social'. Microfinance for instance emerged in response to imperfections in financial markets, but that does not make financial services 'social'. However, there may well be social elements such as social intermediation involved in activities pertaining to the economic sphere.

¹⁶ Looking at individual social organization/institution would be analogous to an economic analysis of individual market (at meso level), studying the interlinkages between different social organizations would be similar to an economic study of the macro level.

2.4.2 Wider Impacts in the Political Domain

McGregor considers wider impacts at the policy level as well. He elaborates on this theme as 'impacts that consist of the ways in which micro-finance interventions have either intentionally or unintentionally produced changes in the policy regimes in which clients and members are located'. However, we feel that it is not only the 'changing' of policy regimes but also the 'protection' of civil rights within the existing policy regime that should be included as a subject of wider impact theme. In line with this broad reasoning, we thus consider the third area/type of wider impact to include relation between society (individuals and groups of individuals) and the State. We refer to this as the *political domain*.

It is merely not the participation in electorates and partisan politics, which exhaust the domain of possible relationships between the society and the state --- various aspects of this relationship surface in a large number of other areas. For example, several rural studies have pointed at the intimidating and coercive role of the State machineries, such as police and the land administration in rural society. The changes in these relationships can be an important subject matter that should fall under this type of impact, which has not been the focus of what McGregor calls 'policy' impacts. In addition to the changes pertaining to day-to-day rights protection of the citizens, we also include, *a la* McGregor, 'policy' impacts such as the emergence of local interest groups to influence local politics, policies and resource allocation at the local level. It also embraces issues pertaining to emergence of common agenda (for action), which ties together different spatially and socially dispersed segments of the society.¹⁷

The interfaces between society and politics may be loosely identified to include all engagements between the State and civil society, which give rise to policies and practices, which ultimately shape or regulate activities in the economy and society. We broadly define the encounters with the state, the latter being represented by the judiciary, land administration, UNO, or the police into two:

1. Encounters with the State where the objective is the protection of established rights and rules of the game. These are encounters of individual households with various state agencies, but do not necessarily fall within the purview of narrow impact assessment studies.¹⁸ While the level of state-sponsored coercion is reflected in experiences of individual households (or, in their sum total), changes in the relative strength of civil society vis-a-vis the state machineries are outcomes of actions taken by collective actions - both spontaneous and organized.

¹⁷ Social advocacy, which addresses state policies, is one example.

¹⁸ This is one example where one may argue that wider also includes some of the non-economic issues at the household level.

2. Encounter/participation with the State to shape policies, which normally goes beyond households, and surely is a part of wider impacts. For example, changes in the composition of the local electorate, resulting in changes in the quality of policy implementation at the local level, or, in resource allocation.

The relation between society and politics may be perceived at the three levels as expounded in the case of economic impacts. Moreover, for each level, one may identify the corresponding State agencies, electorate, policy domain and social/political organizations.

2.4.3 Wider Impacts in the Cultural Domain

In this paper, we include culture as the fourth impact type, which is less precise, even though quite frequently alluded to. We define culture to include a set of beliefs and practices (including habits), which is generally rooted in a system of knowledge and is relatively invariant over short periods (may even be invariant within one generation). The system of knowledge may be fuelled by institutionalized religion, or, may be inherited from predecessors. Some of the simpler examples would include, attitude towards cleanliness, perception on role of daughters, property inheritances¹⁹, intergenerational transfers, need for religious education for children, perceptions on husband-wife relations, attitude towards cultural entertainments and participation of women in such programs, etc. Cultures are normally defined at only levels beyond households; and therefore fall within the domain of wider impacts.

2.4.4 Wider Impact Domains: Routes and Levels

Note that all the domains of wider impact we identified here can be examined at the three levels though the higher level variables will not be simple aggregations of the lower levels. However, we feel that wider impacts issues pertaining to the social domain encapsulated in social relations, is best discussed at the local level. At higher levels, they tend to involve aspects that fall within the cultural and political spheres of our framework. Unlike in the case of wider impacts in the economic domain, the idea of the markets and macro economy do not characterize each of the levels for the other impact domains. For example, for wider social domain impacts, the corresponding variables would be issues more of collective action types, such as the degree of social (including political) mobilization, whether through formal organization or through issue-specific spontaneous mobilization, or the extent of civil rights achieved vis-à-vis the State agencies, etc.

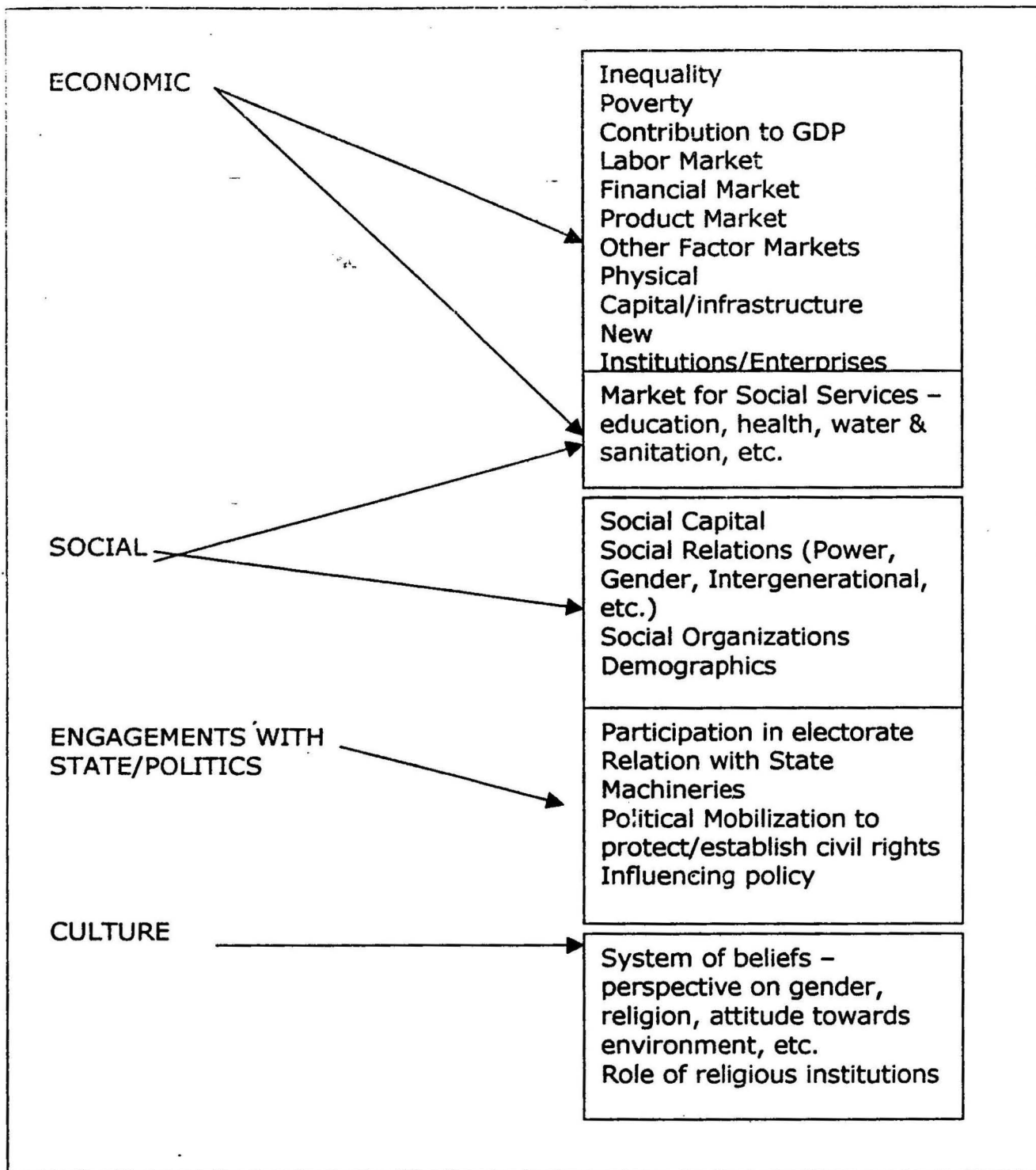
In the economic domain, we argued that there are two routes through which wider impacts take place—one, through credit taking households' engagements with various markets and two, through the direct engagement of the microfinance

¹⁹ Though according to the Muslim Inheritance Law, sisters get one half of brother's share of inheritance, often sisters do not claim their share. Some have argued that this 'sacrifice' is underpinned by the need for 'marital break down insurance' whereby brothers commit to take care of the sisters in case of marital break down (van Schendel,).

institution in various markets. This is most clear with respect to financial markets (see next section for an elaboration), but can also hold for other markets. This basic framework is also valid for other impact domains. Microfinance institutions in course of their operations engage with a range of local institutions, both formal, such as the local governments and informal, such as shalish. Such inter-institutional engagements can have independent impacts on non-market institutions as well, and therefore, on non-economic domains beyond households (see Figure 2.3). Research so long has focused on the design and management of microcredit programs without enough attention to the institutional environment in which microcredit programs operate (Snow, 1999). Exploring this theme further is important for the wider impacts agenda.

The preceding discussion had identified four broad domains of impacts at three inter-related levels. We have also suggested an analytical framework to understand wider impacts. While we had distinguished between 'narrow' and 'wider' perspectives, current imperatives require one to define the scope of future wider studies in the light of what had been missed out in the previous studies. Thus, focus of wider impact studies should be on issues beyond households, as well as on non-economic dimensions of household-level impacts and on indirect impacts on participants. To facilitate discussion on the proposed framework, we list some tentative themes that could be pursued under each impact area in figure 2.4. The next step towards operationalizing the framework developed in this section would need to link the various themes identified under the impact domains with the broad areas of MFI interventions. To this we turn in the next section.

Figure 2.4: Moving from the General to the Particular: Possible Themes ²⁰



²⁰ We are aware of a number of themes that are popularly included in the literature on wider impacts, such as, concern with hardcore poor, etc. These could not be logically included within the proposed framework.

Section III

Wider Impacts of Microfinance: Linking Instruments with Impact Domains

3.1 MFI Intervention Areas

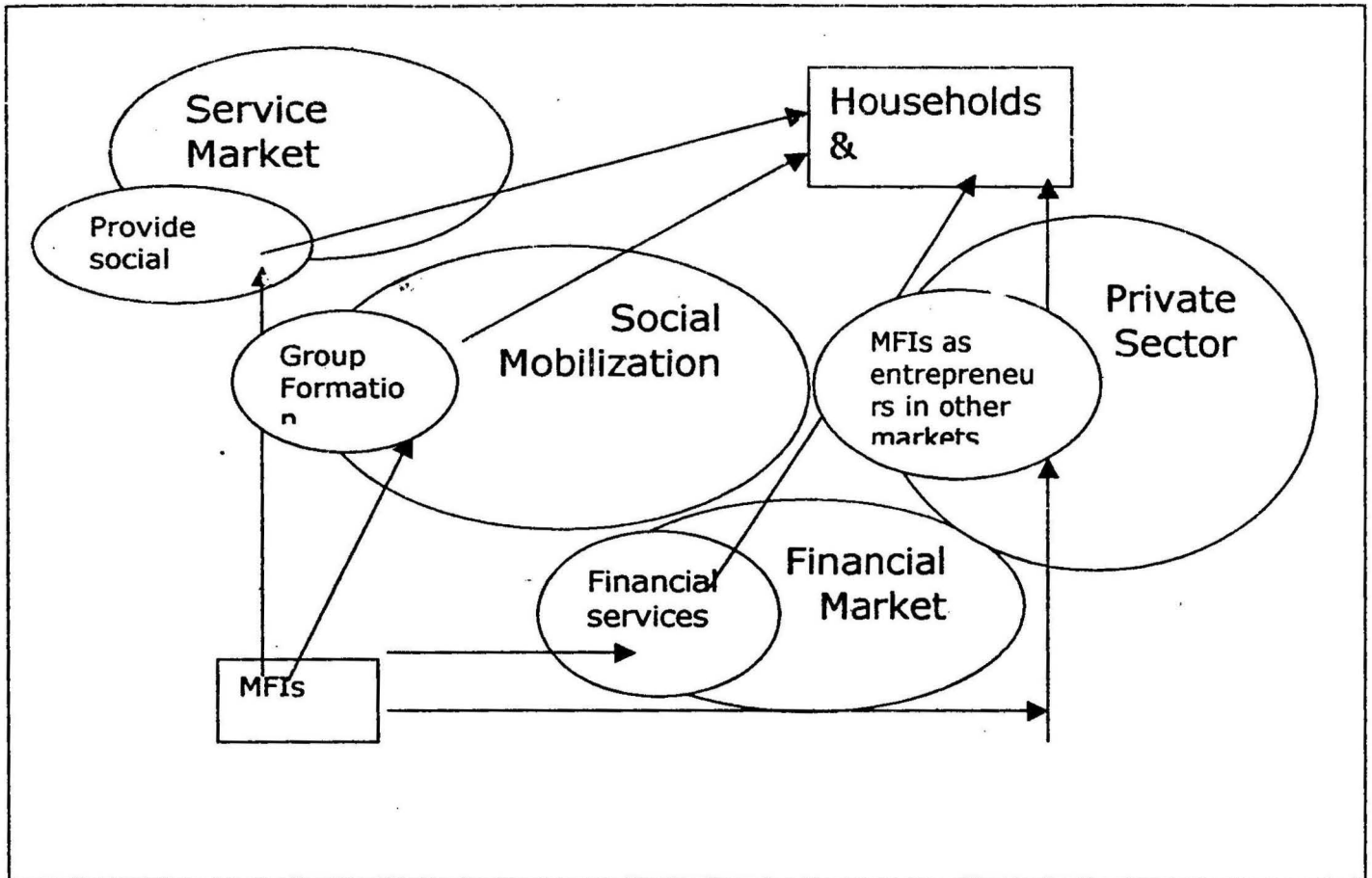
In the previous Section, we tried to define wider impacts and identify its scope. In doing so, we had the primary focus beyond individuals and households; and identified four broad spheres of impact: economic, social, political and cultural. We also identified three inter-related levels at which these impacts may be assessed: local, regional and national. The concepts and framework proposed had been posed at a sufficiently general level, which may have applicability in assessing impacts of other kinds of interventions as well. This section elaborates the framework in the specific context of microfinance and of various activities undertaken by the MFIs. In doing so, the various activities of MFIs are grouped into broad categories, and preliminary attempts have been made to trace their effects in the four spheres (types of impacts) discussed in the previous section. With examples primarily in the economic domain, we suggest some of the ways in which MFI intervention (called 'instruments') may be linked to the wider impact domains. The idea is to initiate exchanges to chart the multi-directional pathways to wider impacts and also lay the basis for a study design proposed in Section 4.

Figure 3.1 below describes the broad activities undertaken by the MFIs. Most MFIs in Bangladesh engage in group-formation and provide financial services to group members²¹. In the former case, they form a subset of the numerous actors who are engaged in social mobilization for economic and non-economic purposes. Similarly, the MFIs provide financial services widening the canvas of the already existent financial market. Some of the MFIs also engage in providing social services,²² most of which had traditionally been in the public sector domain. There are others who may also engage as economic agents, such as, through providing marketing support to the beneficiaries. In this latter position, which has surfaced more prominently in Bangladesh, the MFIs compete and complement existing private sector initiatives, giving rise to a new set of policy issues. Since the implications of each of these interventions differ, this section elaborates on them, and links them with the broad themes (under wider impacts), identified at the end of Section 2.

²¹ A global microfinance inventory exercise (Lapenu, C. and M. Zeller, 2000) finds that more than 40% of all MFIs in the world use solidarity group approach. Just over 6% of MFIs use pure individual lending, while the rest use a mixed approach.

²² In the literature, they are referred to as "credit-plus" NGOs.

Figure 3.1: Broad Areas of MFI Interventions



The major activity of the MFIs is that of providing financial services, and therefore, this has received greater focus in our discussion (in Section 3.3). However social intermediation through group formation precedes all other activities undertaken by the MFIs, and therefore is discussed at first (Section 3.2). The other two functions, depicted in Figure 3.1, are cases where the MFIs act as active economic agents (entrepreneurs) in markets other than the financial market.²³ Wider impacts of such roles are discussed in the last sub-section.

3.2 Group-based Social Intermediation

Social intermediation has been used as a parallel concept to financial intermediation, which is described most extensively in the microfinance literature by Lynn Bennett and her colleagues (1993) in the World Bank's Sustainable Banking with the Poor project. As they define it, social intermediation is a process in which investment is made in the building up of both human resources and

²³ We have noted earlier that the 'social services' are essentially economic in nature, even though delivery of such services may not necessarily be guided by the principle of profit-maximization.

institutional capital, with the aim of increasing the self-reliance of marginalized groups, and preparing them to engage in formal financial intermediation.

Formation of small groups, which are federated at the level of a Centre, precedes lending programmes by all MFIs in Bangladesh²⁴. The focus on women and group formation among MFIs in Bangladesh are closely related. This has important consequences. Hashemi and Schuler (1996), for instance, shows how regular group meetings and interactions in a non-kinship based space results in important empowerment impacts for the members. The interactions in these new spaces have also been argued to be important in ensuring high repayment performance. Jain (1995) for instance observes how such social intermediation through the operations of the group instills in its members a credit repayment culture²⁵. He goes on to argue that it is this social mechanism that ensures high repayment rather than the much-discussed contractual element of joint liability (Stiglitz, 1990 Varian, 1990 Besley and Coate, 1997)²⁶. Recently, Mahmud (2001) finds that group characteristics can have important independent influence on household level outcome variables.

Dowla (2001) reports on several studies examining the links between social capital and microfinance. As part of the *Social Capital Initiative* of the World Bank, van Bastelaer (1999) examined how social capital reduces the cost of imperfect information that is congenital to microfinance. Seibel (2000) studied the relationship between social capital and Microfinance in the Philippines. In that paper, the author evaluated the effectiveness of using norms such as regular attendance in meetings, insistence on on-time repayment, etc., among Grameen replications in the Philippines. The authors concluded that the successful replicators use "hard core social capital of the original Grameen approach"; high moral commitments of leaders based on values enforced through training, peer selection and peer enforcement, and credit discipline (Seibel 2000, p.16-17).

The wider impact outcomes of social intermediation by a MFI may thus involve much more than preparing the poor for formal financial intermediation. The authors of a recent toolkit to study social intermediation (AKF, 1999) for instance argue that interaction within MFI groups can create cooperation and trust that not only facilitate microfinance activities, but also contribute benefits beyond loan access itself. Such benefit may include a greater sense of community, trust and reliance on

²⁴ Most common small groups have 5 members. However there are MFIs whose primary groups have 15-30 members. Though group based lending methodology is the most prevalent in Bangladesh, there are also examples of individual lending, such as *SafeSave*, a savings and credit cooperative working in the urban slums of Dhaka. For more up-market lending, some MFIs have developed individual lending programmes as well, such as the Micro Enterprise Lending Assistance (MELA) programme of BRAC.

²⁵ It is possible that these groups are not 'new' spaces embodying a different set of relationships, but get formed within an accommodative mode (Kamal, 1996) group formation process, then, may be an important determinant influencing the impacts and is an area of interest of wider impacts.

²⁶ The discussion and understanding of the functions of the group in microfinance has focused mostly on joint liability. In the last few years, this function of the group has been challenged (Matin, 1998; Ito, 1998; Jain, 1996; Diagne, 1998, Mosley and Hulme, 1995).

the group in time of crisis, sharing of valuable social and market information, more positive social practices, etc. The networks and norms created by groups are thereby said to be a positive form of social capital, which in turn, can lay building blocks for other social capital development in a community.

We can distinguish between two ways in which social intermediation through group formation and activities can have important implications²⁷. The first one is at the level of 'culture' as defined in our framework. The very act of getting women who were hitherto excluded from the public domain to form groups, meet regularly, chant slogans and interact with (most often male) outsiders, all done in a way that emphasized the value of the women as having an identity independent from their male guardians, was revolutionary. These acts had far-reaching impacts in bringing about new ways of perceiving of the self, womanhood and relating to various engagements in the realm of the economic, social and political domains.

In the economic domain, for instance, it may affect the perception and definition of what constitutes women's work and how it is evaluated; influence the attitude towards desired family size, children's education, household money management or even consumption decisions. Examples of cultural impacts of social intermediation that could affect the social domain of our framework includes for instance attitude towards acceptable age of women's marriage, domestic violence, dowry, hygiene, or even the perception of and behaviour with outsiders. It could also influence gender norms and roles within the household and beyond or bring about changes in the ways in which the functions of community organizations such as the *shalish* is perceived and understood.

The second way in which group based social intermediation may be important is by creating a network for sharing and communicating various types of information pertaining to all the three domains discussed in our framework. The group, by providing the poor with a network through which they are able to share valuable information about events in and around the community, builds solidarity relationships among members who may rely on each other during times of difficulty and they are able to talk to each other about social concerns that they may have and share experiences to resolve household problems. These believed benefits of the group go beyond those of micro-credit schemes and provide added benefits that are thought to lead to the further empowerment of the poor.

Larance's (1999) work provides interesting evidences on how membership in Grameen Bank expands borrowers' network. Her work aptly illustrates how the Center meetings are used to expand network beyond immediate family and kinship groups—weak horizontal ties. Many of her respondents reported that Center meetings enabled them to expand their social and information networks that were used to facilitate economic and non-economic transactions. The members also used the networks to expand social exchanges. These networks eased mobility restrictions for women who were secluded within their neighborhood (*bari*) where

²⁷ Chen and Mahmud (1995) in their framework to assess gender impact pathways of microfinance distinguish between perceptual pathways and relational pathways. Our distinction between the two ways in which group based social intermediation may have wider impacts is similar.

they interacted almost exclusively with their husband's kin (p.18). Such mobility outside of their *bari* to visit others and travel to "public" place in the village is a challenge to the well-established norm of *pardah*. The network was especially beneficial to women who are married patrilocally. Now instead of going to their natal village for help they could use the network to seek assistance (p.20).

It is not only the group members who may derive benefits from the networks made possible through group based social intermediation. The MFI or other economic agents in their role as entrepreneurs can also use these networks of numerous producers and consumers spread across the country, a theme, which we elaborate later in this section. Through such activities new markets for poor producers may be opened up, or new technologies may be brought with far reaching implications for poverty. These networks can also be used to get rapid information about disasters that can help in building concrete issue based advocacy by the MFIs and other civil society agents; and ensure more effective relief distribution.

The impacts of social intermediation to result in social mobilization however would require the leveraging power of groups and is predicated on the idea that through their groups and its linkages with higher bodies, members have a greater ability to enact change due to their co-operation and strength in numbers. While the benefits of microfinance initiatives to poverty alleviation have been well documented and established, there remains controversy as to the importance of the group lending and group dynamics aspects of many of these programmes. However, the existence of these groups may be argued to be important, particularly to women and other historically marginalized groups, in establishing relationships that spur confidence building, information sharing and coordinated efforts to create change. Exploring this theme will involve examining if the "strength in numbers" theory applies to communities in which microfinance initiatives and MFI projects exist.

The sustainability of social intermediation impacts at the levels of culture, creating information networks or spurring social mobilization is another important issue that needs addressing under the theme of wider impacts pertaining to the social intermediation role played by microfinance. Failure of some groups to sustain themselves has been observed to be quite common. It is also possible that members may have "graduated" from their groups and no longer benefit from the social intermediation provided; if this is the case, it may be important to reveal the level at which this is reached and what possibilities exist for those who exceed these levels. It could be argued that social intermediation, just like financial intermediation requires 'product' development and innovations that more closely reflects the changing reality and needs of the group members.

It is important to understand the nature of the benefits derived from investing in social intermediation. If these benefits are like public goods, in the sense that MFIs investing in them cannot ensure control over them, then, it is likely that later entrants into the market would be able to save costs and benefit from the early investments. If this is the case then a case may be made for public subsidizing of early investments in social intermediation. Alternatively, it may be the case that the benefits of social intermediation accruing to a MFI is programme specific. These

issues need to be further explored under the wider impacts theme pertaining to social intermediation.

3.3 Wider Implications of MFI Financial Intermediation Services

The primary activity of most MFIs in Bangladesh is mobilization of savings and lending money to the members. We consider two different routes through which impacts may be forthcoming. First, MFIs themselves are new actors in the rural financial market, introducing important changes in its composition and in the rules of business. This aspect has received relatively less attention, and will be discussed later (in Section 3.3.2). The more often cited impacts are rooted in the use of loan by the borrowers. While traditional impact studies, focused at the level of the household, and had traced such uses with changes in household level income and employment, we discuss the implications of such uses (in Section 3.3.1) for the various meso variables, primarily in the economic domain.

3.3.1 Tracing Wider Impacts through Loan Use

Exploring the pattern of loan use can be one important way through which one can examine the possible wider impacts MFI financial services may have on other markets. Empirical studies of recent vintage generally suggest that loan money is used in one or more of the following purposes (Zohir *et al*, 2001):

1. Consumption
2. Income-generating activities
3. Others:
 - a. Expenses on buying land (sell purchase and mortgage-in) and other assets,
 - b. Expenses on Child education
 - c. Home construction and repair
 - d. Medical expenses
 - e. Social ceremonies – marriages, etc.
 - f. Repayment of past loans and/or forward lending for profit.

We elaborate on the implications of some of these uses in order to arrive at some common understanding of the wider impacts, which arise as a result of relaxed credit constraint at the household level and as a result of engagements of borrowing households' in other markets. We do this exercise to suggest some possible pathways through which wider impacts may take place. The idea is to open up discussion and thinking about wider market implications, which can be helpful in formulating concrete hypotheses, appropriate methodology and study design for exploring the most plausible and relevant pathway.

Consumption Smoothing

Given that a significant proportion of borrowed money is used for consumption, it is commonly acknowledged that MFI lending helps in smoothing consumption (Morduch, 1995, 1996, 1998; Pitt, 2000).²⁸ There are broadly two kinds of consumption/ expenditure irregularity, which may be smoothed with increased access to the credit market. The more commonly cited case involves variations in regular consumption as a consequence of variations in income. While this is normally associated with seasonal variations, such irregularity over years is not uncommon.²⁹ The second case of irregularity arises due to lumpy expenditures, which are independent of time-specific income flows, and whose financing needs to be smoothed. Such lumpy expenses will typically include items cited above under "others". Some of these, such as, expenses on *Eid* festivals, would fall within the seasonal cycle of a year, while others (such as, medical expenses) may be quite random and unpredictable. We consider only the first case of consumption smoothing, which is largely of seasonal nature.³⁰

One may posit two alternative scenarios even under the case of consumption smoothing driven mostly by seasonality. First, one may assume that such smoothing was already prevalent prior to the MFI involvement, which was supported by credit (both cash and kind) flow from informal sources. Such sources include not only the traditional moneylenders, but also the local grocers (shopkeepers) and/or informal collective arrangements such as RoSCAs/ASCRA, etc.³¹ Aside from welfare gains that accrue to the microcredit recipient households due to their ability to have access to a cheaper source for consumption smoothing, the entry of microfinance institutions within the financial landscape of the local economy is likely to have independent impacts.

One wider implication of such consumption smoothing (as a result of switching sources) could be a decrease in certain forms of interlinked contracts such as tied credit (*dadon*) for subsistence consumption, tied agricultural labour, etc. It has been observed that the desire to smoothen consumption lies at the heart of many such interlinked contracts (Bhaduri, 1977). These contracts could take on new forms involving new economic relationships. Given that such interlinked contracts are embedded within certain relationships of obligation and reciprocities, changes in the existing contracts are also likely to have an impact on them. Pitt (1996) for instance finds that microfinance tends to almost completely crowd out other forms of transfers received by the participating households.

²⁸ In order to verify if there is strong presence of consumption smoothing as an underlying factor to take loans, one may verify the time pattern of loan uptake and assess if it is endogenous to household decision-making.

²⁹ Zohir *et al* (2001) finds that the income of the poor households in rural Bangladesh declined during the 1998 flood year, as a consequence of which more than one-fifth of the borrowings from MFIs was spent on consumption. During other years, not affected by natural calamity, the corresponding figure was around 6 percent only.

³⁰ As late as 1991, researchers found *Mora Kartik*, the slack period of September-October, to have significant bearing on livelihood of rural poor in Bangladesh. See Rahman, (1996).

³¹ One interesting question could be to explore the effects of microfinance access on such informal self-help arrangements.

In the second scenario, the microfinancial services result in a net increase in the number of households that are able to smooth consumption³². As a consequence of this, opportunity for regular (round-the-year) employment in the delivery of goods/services will increase; and subsequently the scope of part-time involvement during seasons of peak demand will diminish.³³ Such changes in the market demand lead to emergence of more permanent establishments serving the market on the supply side. Since these establishments involve overhead costs, the benefits from this change are more likely to be accrued by well-off households. In contrast, the poor are likely to be adversely affected by such market changes since they normally engage in part-time (seasonal) market activities.

Implications of Income-generating Activities

Major income-generating activities, where MFI loans are reportedly used, include, agricultural production, trading, processing and transport, most of which generally fall under self-employment activities. Their wider implications are briefly discussed below.

Agriculture: Abstracting from changes in the land rental market (discussed later), greater access to credit is generally perceived to lead to increase in the use of agricultural inputs and raise agricultural production. One would therefore expect larger volume of transaction in the various non-labor input markets and a larger volume of agricultural produce to be marketed. All these would imply a larger size of employment associated with providing market services. This is especially true in cases of poultry and livestock sectors, where some MFIs have had significant involvement. This is expected to reduce the prices of these produce and open up the market for veterinary services and poultry/cattle-feed. Mixing of traditional technology and semi-intensive and HYV technology in case of poultry may however have negative wider impact if specialized disease gets widespread when two or more breeds are raised in the same locality without adequate safeguards³⁴.

³² The informal sources of consumption smoothing are not only expensive but also tend to collapse in the face of local level covariant risks. For instance, Rosenzweig and Binswanger (1993) use data from rural South India to show that an increase in leads to a 35 percent reduction in farm profits for the poorest quarter of households but has no effect on the wealthiest farmers. This echoes evidence from rural South India that households with large landholdings have little difficulty coping with idiosyncratic income shocks but that the consumption levels of landless households and smallholders decline sharply as income falls (Morduch 1993).

³³ To give a numerical example, say, 10 persons were engaged during the period of peak demand and only 4 persons were engaged during the slack period in delivering goods & services to a given market, characterized by extreme seasonal fluctuation in demand. With consumption smoothing, suppose, 7 persons can be accommodated during the first period, while 6 engage in such activities during the second period. Thus, market condition initially allowed 4 persons to remain engaged in both periods, which increased to 6 due to consumption smoothing.

³⁴ *Chinta* the Bengali magazine brought out by UBINIG has had a number of issues covering such issues.

Trading: There is a wide range of activities ranging from marketing of local produce to selling of consumer goods in local markets, which are grouped under trading. Financing of trade activities by the MFIs enable many to establish new marketing linkages, replacing existing intermediaries. Within existing trading activities, MFI loans can replace traditional sources of trade finance (agricultural produce) and this can in turn affect trading contracts. Generally, all these will lead to increased competition in trade and, as a result of reduction in trading margin, will reduce consumer prices (of items brought into the local economy) and increase producer prices (of locally produced items sold elsewhere). The welfare implication of such changes in prices will be mixed.

In many instances, trading (and other self-employment) activities financed by the MFIs are seasonal in nature and provide only supplementary employment and income. This has two important implications: (i) income variability over different seasons in a year decreases (see Zohir *et al* 2001) enabling smoothing of consumption; and (ii) due to availability of employment/income during the slack periods, fewer people would seek work elsewhere through temporary migration. The latter effect has several implications in the economic and social domains. First, enabling workers to remain employed during the slack seasons in their place of residence may, under certain conditions, lead to reduction in the wage rate during peak periods.³⁵ This will contribute towards increased production in agriculture. On the social dimension, reduced temporary migration will increase family cohesion, and contribute immensely towards improving the child-upbringing. While temporary out-migration to distant places may reduce, trading activities generally involve more frequent interactions with people in neighbouring villages, which may raise the prospect of social exchange which can in turn create more vertical forms of information networks.

Transport: A significant proportion of MFI loan is reportedly invested on buying rickshaw/van. Normally, such investment is made in areas where appropriate physical infrastructure is already in place. While there may be net addition in investment, acquisition may also reflect transfers in ownership of rickshaws/vans due to MFI loans, that is, rickshaw-puller/laborers turning into self-employed rickshaw-owners by buying rickshaws/vans from existing owners.

Increased investment on rickshaws/vans will lower the price of transport services, which will increase flow of goods and services as well as human mobility. As in the case of increased trading activity, lower transport cost will raise the prices received by local producers and reduce the prices local consumers pay for outside goods.

Depending on the area, engagement in rickshaw-pulling may be a seasonal activity, or, a regular year-round activity. In the former case, the implications would be

³⁵ Such a conjecture may appear to be contrary to the way impacts on wage rate is postulated in the literature (see Khandker and Pitt, 1996). However, with positive cost in labor mobility, one can argue that peak period wage rates will be lower when slack period employment is increased. Such a conjecture however assumes that meeting additional demand during peak period is not constrained by reduction in the inflow of migrant labor from elsewhere.

similar to those discussed for trading activities. In both cases, however, emergence of a separate community of rickshaw-pullers has important implications for the local economy, society and politics; which have hitherto been little studied. As secondary effects on the economy, new employment and income are generated in providing services for repair works and to meet specific demand for fast food, such as those sold in tea stalls. Increased mobility, facilitated by the new mode of transport services, will also have social implications. More importantly, a new coalition between service providers and users may emerge to ensure better maintenance of rural roads.

Wider Implications of other loan uses

As an example of wider implications of loan uses within this category we focus on the loan use involving the land market³⁶. Recent studies (Sinha and Matin, 1998; Zohir *et al*, 2001) show that in some parts of the country as high as a quarter of the MFI loan is spent on mortgaging-in land and/or cash rental³⁷. Such a trend reflects an urge on the part of the labouring households to ensure employment of own labour through establishing user right over land. On the supply side of the land rental market, it also reflects the demand for cash by landowning households, often to meet expenses for sending members abroad. Flow of MFI credit to the land market therefore will encourage cash rental, raise the rental price and facilitate international migration from richer households. To the extent transfers in the land rental market reflect increase in tenant farming by erstwhile wage labourers, the market for wage labour will get thinner (Pitt, 1999). In cases where there is a switch from wage contract to tenant farming, total production may suffer if access to credit is not matched by ownership of non-tradable complementary inputs (such as, bullock powers).

The discussion on wider impacts, by looking at some broad categories of loan use pattern, may be summarized as in Table 3.1 below.

³⁶ Another area of concern that falls within this loan use category is the expense on social ceremonies, including that on dowry (see Rao, 2001 for an interesting analysis of social expenditure). It is quite possible that it helps in perpetuating the very practices against which the MFIs advocate. It is a tricky issue that needs to be addressed by the MFIs.

³⁷ The research by David Gibbons (1994) that examined the long-term impact on Grameen clients found that mortgaging in land was an important and popular investment that enabled graduation. This study later made Grameen Bank lift the official restriction it had on such use of loans.

Table 3.1 Charting Wider Impacts through Loan Use: A Summary

Loan use	Pathway	Possible Wider impacts
Consumption	Smoothing of seasonal variation in demand for consumer goods	Reduction in tied contracts (e.g., in credit/product market)
		Regularity in employment leading to increase in the number of permanent establishments
Agricultural Production	Increase in input purchases	Increase in employment and income in trade & service sectors
	Investment on poultry & cattle farming	Demand for new services created, leading to increase in employment & income
Trade	Increase in the number of traders	Increased competition leading to lowering of trading margin
	Changes in contracts pertaining to supply credit	Changes in the marketing linkages, with possible reduction in trading margin
	Increase in slack season employment	Smoothing of consumption
		Implications for wage rates
Transport	Reduction of transport cost	Increased mobility
		Decline in trade margin
	Emergence of a new community	Creates demand for new kinds of goods & services
		New interest group with implications for local society and politics
Micro-enterprises	Increase in demand for labor	Increase in wage employment of local poor, reducing poverty

Note: Some aspects, such as, welfare gains to the households as a result of consumption smoothing, and increase in household income due to increase in agricultural production, have normally been covered under the 'narrow' studies. It is also important to note that the last column includes impact areas which cover non-participant households as well.

3.3.2. Wider Implications of Introducing New Financial Institutions

It is now widely acknowledged that the MFIs, with their innovative program packaging, have enlarged the financial market, increased the volume of household financial savings, and for good or bad, induced competition in the rural financial market. Moreover, their presence in the forms of formal organizational setups, also have bearings on the local economy and society. In the following, we discuss some of the wider implications of such presence, with examples primarily in the sphere of the local economy.

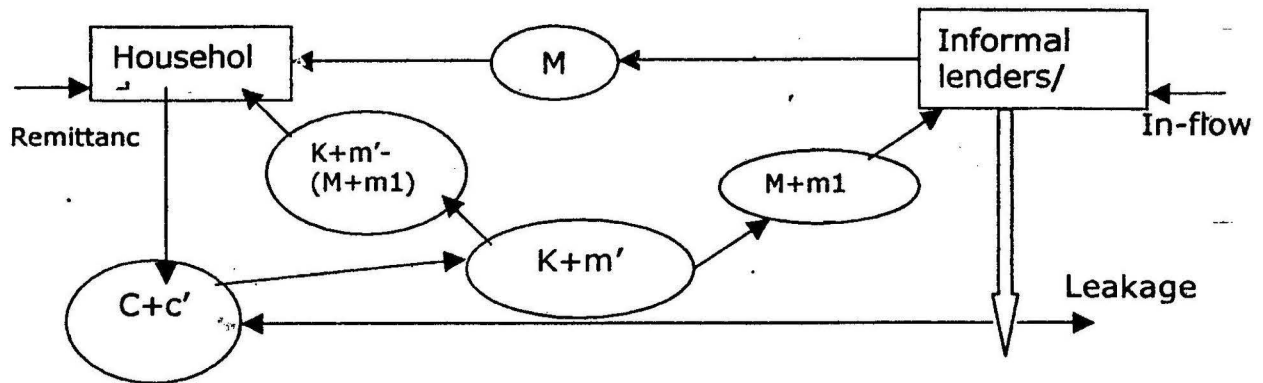
There was a time when informal lenders – especially, the moneylenders – were considered exploitative; and MFIs were expected to displace them with more

reasonable offers to the rural population. Interestingly however, recent studies suggest that informal sources co-exist with the MFIs (Zohir *et al*, 2001; Rutherford, 2000; Sinha and Matin, 1998) and informal lenders claim to benefit from the presence of the MFIs (Choudhury *et al* 2000; Jain and Ghazala, 2000). A number of conjectures may be suggested: (i) nature of lending by the informal sources has changed in ways that now complements the MFI lending within the overall cash management cycle of rural households; (ii) MFI lending had initially displaced informal sources, but the latter has revived lately due to changes in the workings of the MFI programs. In either case, part of the benefits from MFI lending is likely to be transferred to the informal lenders; having wider distributional implications. This is also applicable for MFIs competing in the same market, and therefore industry-wide perspective on the absorption capacity of the local economy is pertinent, which has a number of ramifications from the wider impacts perspective. We raise some of them through an illustration of a simple case below with a focus on the dynamics arising in the domain of the local economy.

For simplicity, we describe the financial flows in the local economy in Figure 3.2. It abstracts from seasonal variations and from variations across households. In the absence of any borrowing a representative household engaged in commodity production (C), which was sold in the market at a value of K . In a scenario with borrowing, money (M) lent to households is used for enhancing commodity production by c' ; and the total produce ($C+c'$) is fully realized in the market at a value of $K+m'$. Suppose, m_1 is amount of interest paid by the household to the lender. Thus, additional revenue retained at the household is $(K+m'-M-m_1)$. It should be noted that the household may decide not to use the borrowed money on income generating activities, in which case, $c' = 0$, and therefore, $m' = 0$.³⁸ The lending sector receives a return of m_1 , which enables them to access part of the enlarged commodity produced ($C+c'$) in the local economy. Once MFIs, along with their staffs are considered an element in the local macro economy, their expenditure pattern plays important role in shaping the structure of commodity production and relative prices. It is also expected that part of the earnings will be remitted back to families, and thus, will be spent outside the local economy. We consider this element as 'leakage'. There are several aspects of wider impacts, which may be highlighted on the basis of this simple exposition, and these are briefly mentioned below.

³⁸ Note that m' may be zero even when $c' > 0$, that is, a household may fail to sell the goods it produces.

Figure 3.2: Flows in Financial Market and Commodity Production: A Simple Model



1. The size of M (revolving loan fund) in the financial market has to keep pace with the household sector's capacity to engage in sustenance of existing production (C) and to produce additional goods (c'); and the presence of MFIs, with all the multiplier effects of their local-level expenditure is likely to enhance such capacity. These multiplier effects would constitute part of the wider impacts.
2. Additional effort through non-financial means to enhance this capacity will increase the potential for increasing the size of M . An examination of the best ways MFIs can engage (directly or through partnerships) in such non-financial means to enhance absorption capacity is thus important within the wider impacts agenda.
3. Technology and risk (both production and market) are two important elements, which will influence the relative size of c' (additional commodity that the local economy produces) as well as m' (net income from producing c'). Potential of household-based enterprises may be severely limited in certain markets, and this may call for promoting enterprises beyond households, which subsequently may weed-out household-level IGAs. Such dynamics should form important subjects of wider impact study.
4. Significant presence of an MFI sector will effect the commodity composition of trade and production, and thereby, the relative prices of commodities. This will have distributional implications, which may constitute a part of a wider impact study.
5. Total cash flow into the local economy is unlikely to remain within that economy (i.e. leakage may be positive) claiming limited real resources that are available. Similar to the example of (financial) resource transfer through land market and migration, there are other avenues through which such transfers take place. These are likely to impact upon other economic spheres at higher levels.
6. Implications of competition among MFIs on the size of M (which is likely to increase), its compatibility with the absorption capacity of the household sector,

possible effects on the size of c' , size of $m1$ (through possible reduction in interest rates and decline in recovery rates), etc. are worth looking into within the umbrella of wider impact.

3.4. Wider Implications of Other MFI Engagements

We had noted two other routes (in Figure 3.1) through which MFIs may intervene in the local and higher levels of economy and society. The case of providing social services is well documented in the literature, while the role of NGO/MFIs as entrepreneurs is only recently being recognized (Zohir, 2001; Sen, 2001). The common element in both, from the perspective of the current discourse on wider impact, is the emergence of institutions (in the form of MFIs), which can undertake different economic and social initiatives that go beyond their original agenda.

In the process of organizing rural poor in groups and providing credit to group members, these institutions have developed corporate-like culture, and control a number of strategic resources, which the private sector in a developing country normally lacks. These include, a network of producers-cum-consumers, financial resources, a body of professionals and wide contacts within and outside the country. This has opened up a wide range of new initiatives, which were beyond imagination only a decade back. Some of the examples include, BRAC's Aarong initiative, Grameen Uddog's production and marketing of Grameen Check by organizing handloom weavers, supporting initiatives of rural women with Grameen cell phones, BRAC's engagement with HORTEX foundation in promoting export of vegetables, BRAC's partnership with the GoB agencies in the fields of health and education, Gono Kallyan Trust's grocery shops in Dhaka city marketing produce from Manikganj, TMSS and GUP's role as agents of private seed dealers in organizing production of soybeans, etc.(Zohir, 2001)³⁹.

As a part of the wider impact, it is therefore important to account for the emergence of these institutions with their current (as well as potential) contribution towards promoting economic growth and providing employment. No less important is the fact that emergence of these institutions has induced competition in several markets – with government agencies in the delivery of social services, with private entrepreneurs in the production and marketing of private goods, and with formal banking sector in the financial market – which has also helped in transforming the quality of services provided by the traditional actors. The net gains to the national economy may therefore be substantially higher than captured by the 'narrow' studies on households only.

While we have largely confined ourselves to the sphere of economy, emergence of these institutions have also far-reaching possibilities in impacting on the social and political spheres. We touched upon some of these in our discussion on group formation in 3.2. Some examples of such activities of MFIs in the sphere of social

³⁹ Though the examples we draw upon to illustrate our point here is from the Bangladesh experience, there are examples elsewhere. For example, Lever Brothers in India showed a lot of interest in partnering with Self-Help Groups as marketing agents. For elaboration on this initiative see the contribution by Ramakrishna Rao in the Viewpoint section of the CGAP's Microfinance Gateway (www.microfinancegateway.org). There are other country studies on the theme of linkages between rural credit agencies, agricultural extension and marketing in ESCAP (2001).

and political domains include the role played by various MFIs in raising awareness of the electorate, coordinating/partnering with other NGOs for policy influence (for instance CAMPE in the field of education) or to direct benefits (for instance BRAC's partnership with Ain-O-Shalish Kendra, an NGO specializing in legal aid for poor women), or attracting media attention (for instance BRAC's partnership with Acid Survivors' Foundation), etc. Detailed exploration of such possibilities of leveraging the network capital of MFIs through strategic interlinkages and partnerships with other bodies could be an area of wider impacts studies.

Section IV

Study Design for Assessing Wider Impacts: A Few Illustrations

4.1 Wider Impacts: Processes and Outcomes

In this paper, we have tried to reveal some of the inconsistencies in current thinking in defining the term and the scope of wider impacts, and have proposed a simple framework encompassing the spheres of economy, society, politics and culture. While the exposition to our framework has been made with references to processes and outcomes mostly in the economic sphere, it is proposed that they can be adapted to the other spheres as well. It is important to repeat that comprehending all the dimensions of wider impacts requires accounting for the processes unleashed by the activities of the MFIs, in which the latter turns out to be an active endogenous element/actor. In spite of this recognition, the value of assessing impacts in terms of outcomes, especially when different interventions compete for limited resources, cannot be underestimated. Noting this dilemma, we lay out in this last section some preliminary ideas on how one may proceed in assessing wider impacts in future research.

4.2. Legacy of 'Narrow' Impact Assessments: Can We Make Partial Use of Them?

Impact assessment studies at individual and household levels have often grouped the sample into eligible (poor) and non-eligible (non-poor), and within them, among participants and non-participants. There have also been repeat surveys to show changes (in outcome variables) for each of these groups. Since the benefits of immediate 'narrow' impacts are likely to be accrued only by participating households, while wider impacts are likely to be shared by both participants and non-participants, one may attempt conjectures on the trend in divergence between the two groups. We discuss this below to give an exposure on the usefulness of household-level outcome variables, normally addressed in 'narrow' studies, in inferring on wider impacts.

Suppose y is a household-level sample statistic, which is considered an outcome variable, and everyone agrees that welfare increases if the value of y increases. One may consider y to be average household income, or, percentage of school-age children attending schools, or some other similar variable. Let $y_p^e, y_p^n, y_n^e, y_n^n$ be the value of the outcome variable for eligible participants, non-eligible participants, eligible non-participants, and non-eligible non-participants, respectively. Let us also assume that y^e and y^n are respectively the average outcomes for all eligible (poor) and all non-eligible households. With these notations, we look for conditions which my indirectly suggest the presence of significant wider impact.

If the first-round 'narrow' effect is positive, one would expect $x = (y_p^e - y_n^e) > 0$ to hold. Here, x is assumed to be the size of 'narrow' impact. Since household-level outcome variables may only be accommodated within the 'wider perspective of wider impact', two alternative conjectures may be made with regards to the relation between the sizes of 'narrow' and 'wider' impacts and on how the latter impacts upon the different household groups.⁴⁰ On the first issue, one may make a simple assumption that the two impacts are mutually exclusive, and therefore the total impact is the sum of narrow and wider impacts. In such a case, if wider impact is same across participant and non-participant groups, x (as defined above) would remain constant. However, the difference as a proportion of any of the group-specific variable, say, (x / y_p^e) would be decreasing over time.⁴¹ There may however be cases where inclusion of 'wider' impact does have bearing on the size of 'narrow' impact. For example, consider the first group of recipients of MFI credit at an interest rate much lower than the alternative informal source. The 'narrow' gain would consider the difference of the MFI interest rate with the pre-MFI interest rate on informal lending. In subsequent period, the latter may decrease because of competition in the financial market, which benefits the 'non-participants' as well. Such a secondary effect is not equally availed/shared by both the groups, and therefore, the difference between the two groups, x , is expected to decline over time, if there is significant presence of wider impacts.⁴² If one wants to further cross-check if wider impacts generally go in favor of the poor or not, one may verify if the difference between the rich and the poor, $z = (y^n - y^e)$, which is normally positive, diminishes over time.

The above is suggested as a quick and rough exercise, for assessing the presence of wider impacts. However, it is by no means a robust statistic. The wider impacts (in areas beyond households) may not have identical feedback effects on the participants and non-participants. More importantly, methodologically it will be difficult to attribute the changes to MFI activities.

4.3 Examples of Some Do-able Exercises

We present three different exercises, which highlight on how one may assess some of the wider impact issues raised in this paper. These are described in Figures 4.1 to 4.3. The first two are on impacts in economic sphere, and largely deal with outcome variables, which are quantifiable. The first of these deal with wider effects of loan use by MFI borrowers, while the second one identifies a plausible path of estimating the wider impacts of MFI engagement as institutions in financial and other markets. The third example takes cue from our discussion in Section 3.2 and describes some of the processes initiated in the cultural, social, economic and political spheres due to formation of MFI groups with female members. The focus, in this example is on wider impacts on women's space in all the four interlinked spheres. As may be noted, the emphasis here is on the process, even though some

⁴⁰ See discussion in Section 2.

⁴¹ An underlying assumption is, size of wider impact increases over time.

⁴² Similar analogy may be given in the case of technology diffusion from participants to non-participants.

of the outcome variables are identified in each sphere. We briefly discuss each of the exercises below.

Case 1: Wider Implications of Loan Use

Ideally, one needs to approach the problem within the framework of a multi-market model. One could also construct a micro-CGE framework to assess the wider impacts at meso levels and end-effects on groups of households. For the purpose of elucidation, we identify the important markets (in the first column in Figure 4.1), which a partial exercise may look into. The second column identifies the meso-level outcomes, from which one may arrive at aggregate impacts on a number of key statistics. The latter are quantifiable, and with appropriate distinction between household groups, may be used to infer on the distributional consequence of the wider impacts.

Case 2: Wider Impact of MFI Engagement as New Institutions

As noted in this paper, this aspect has received little attention. It is our contention that the microfinance institutions, as they are now, have evolved through a long process of their engagement in financial and non-financial services to the poor community in Bangladesh. Thus, these institutions are themselves outcomes of the process initiated through their microfinance engagements. Figure 4.2 distinguishes the role of these institutions as provider of financial services from their engagement as entrepreneurs in non-financial markets. Accordingly, the outcome variables, most of which are quantifiable, have been charted separately. Unlike the first case, there are fewer problems with attribution in this case.

Case 3: Wider Impact of Group Formation on Women's Space

This case departs from the previous two in its focus as well as in the method to be applied. The purpose is to capture the process since there are iterative feedbacks across all the spheres and across the identified outcome variables within each sphere. The suggested list of outcome variables, however, may capture the state at any point in time. Unlike the other two, no numerical value may be assigned to the outcome variables, which would have monetary equivalence. Some of the variables are however quantifiable, information on which may be easily gathered. Collection on the rest requires non-quantitative techniques.

Figure 4.1 Case 1: Implications of MFI loan use

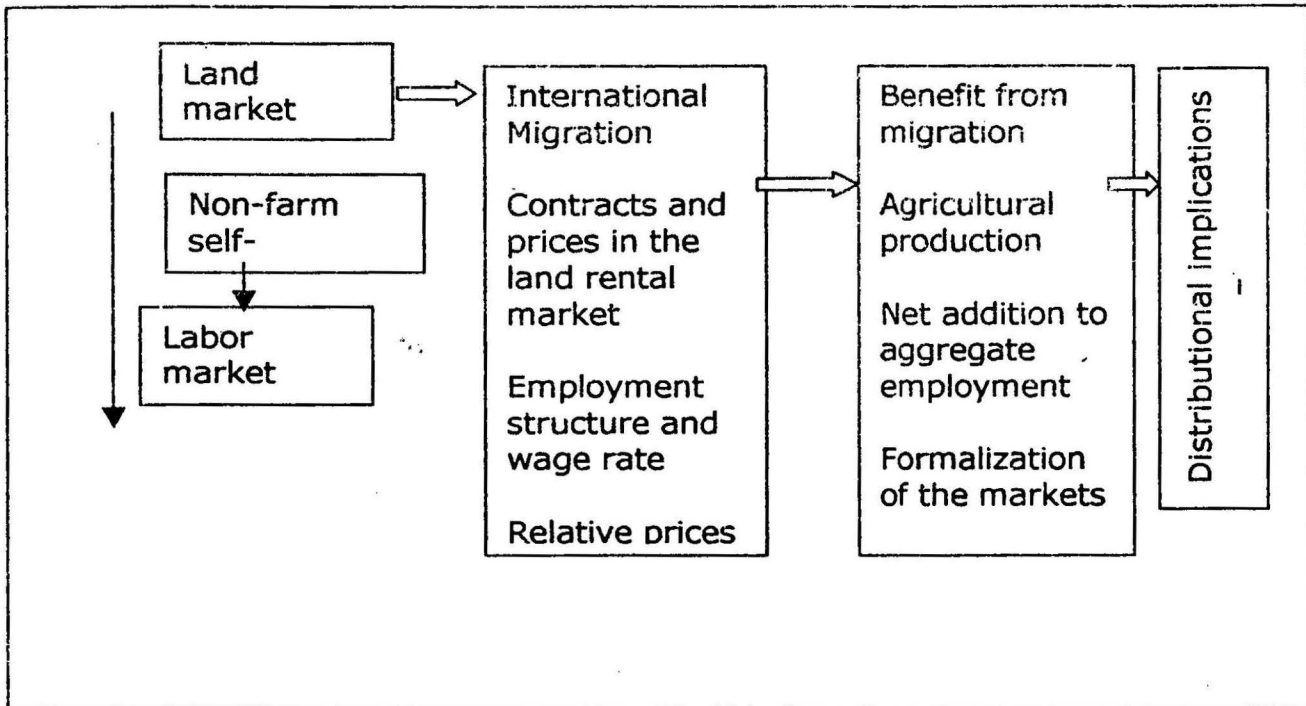
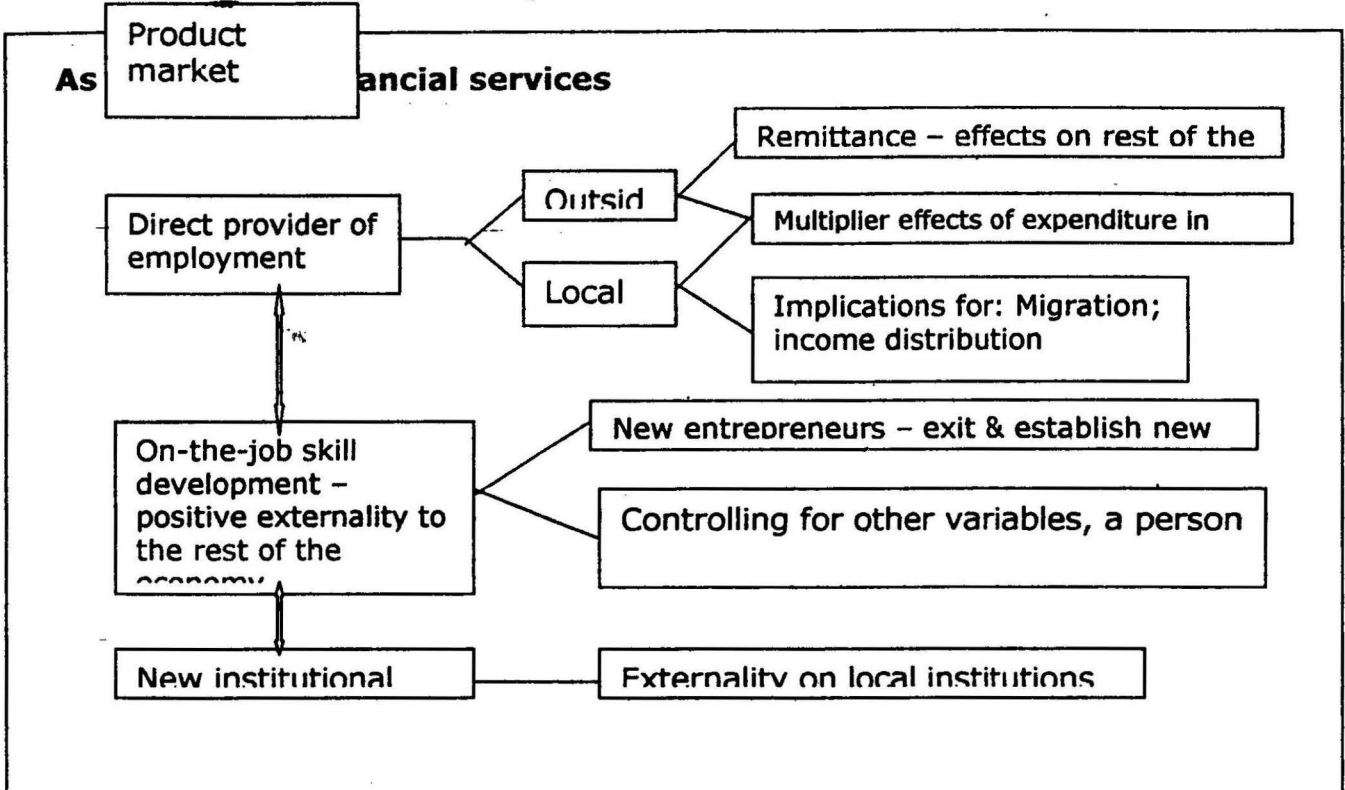


Figure 4.2 Case 2: MFIs as New Institutions



As emerging entrepreneur in markets other than microfinance

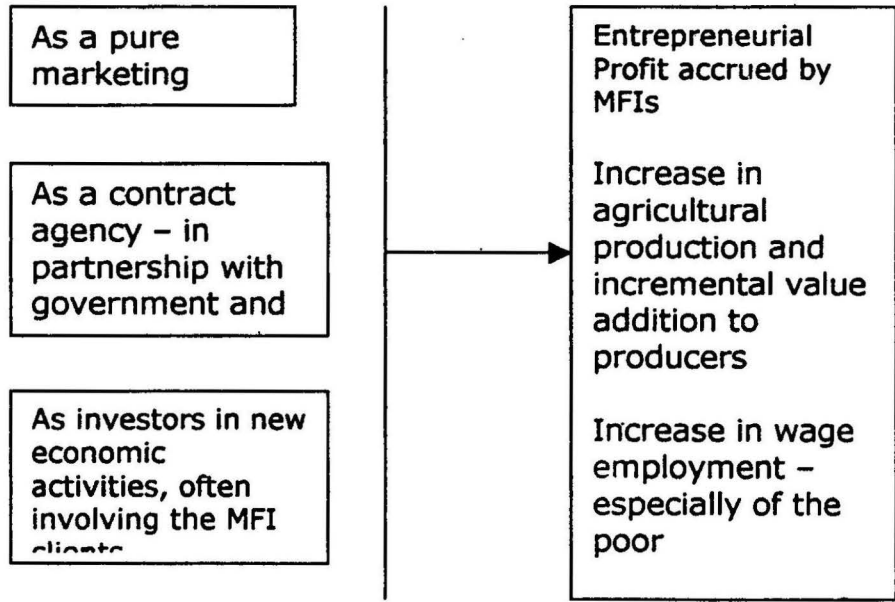
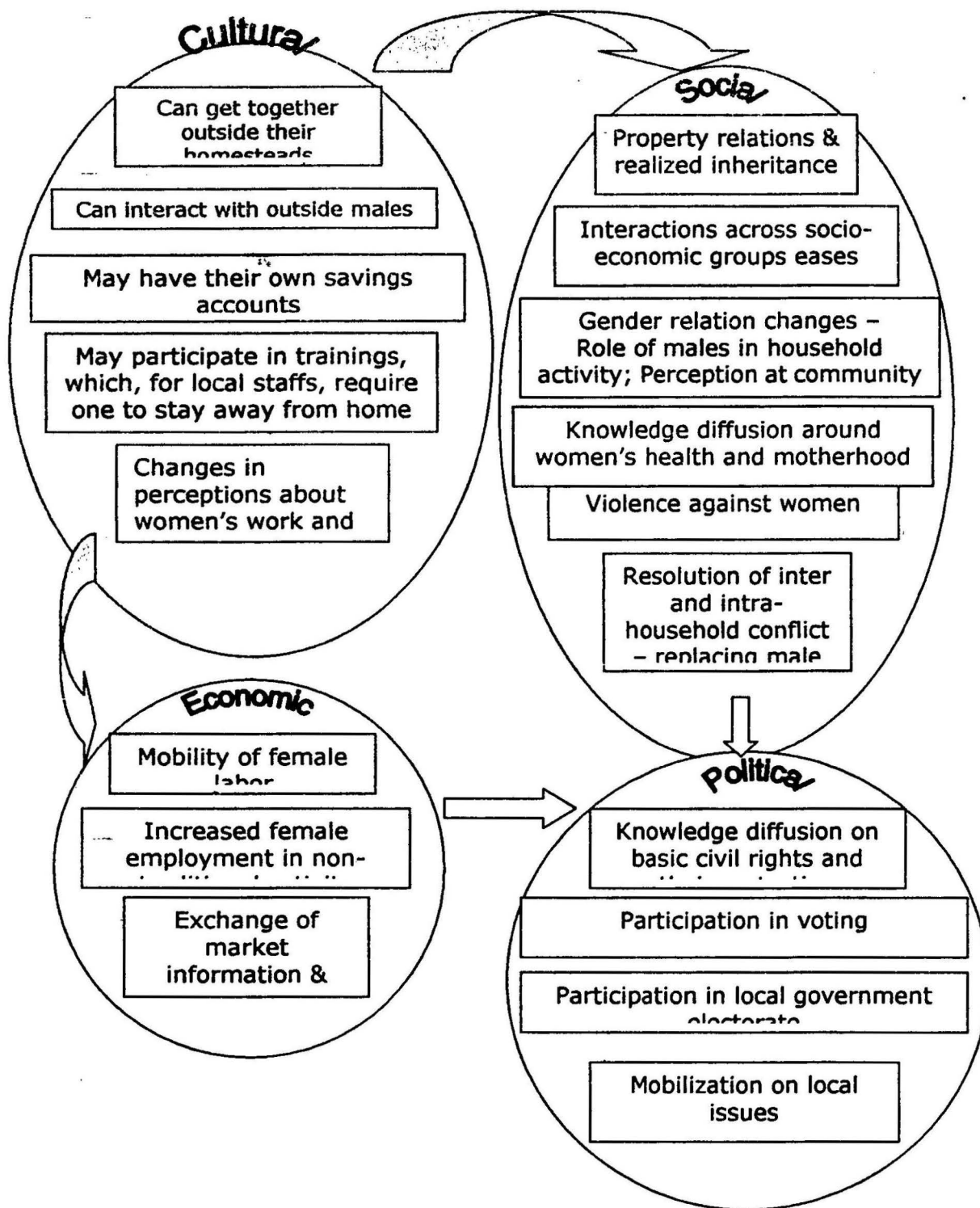


Figure 4.3 Case 3: Wider Implications of Group Formation



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