

UN Vision Project on Global Public Policy Networks

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THE POLITICS OF MICROCREDIT

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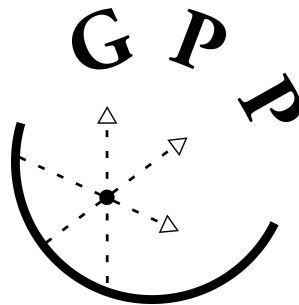
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Case Study for the UN Vision Project on Global Public Policy Networks



I. INTRODUCTION

The purpose of this study is two-fold. It is primarily concerned with providing a descriptive analysis of microcredit public policy network and examine the policy formulation processes and policy cycles that have occurred within the network. In this regard the research is concerned with such issues as (1) the patterns of institutional changes within the network; (2) modes of network initiation; (3) policy cycles of the network as a whole and a specific policy cluster and (4) learning outcomes of the network. Understanding the intricate patterns of network development and the politics of its policy cycles creates a ground for discussing policy recommendations capable to generate corrective measures to control for network performance flaws. Specifically, the research champions the necessity of comprehensive political management of the microcredit enterprise¹, which is a precondition to better the overall operation of the network in local and global levels through

- increasing the efficiency of resources mobilization and subsidy deployment among the actors;
- introducing an adequate legal framework capable to regulate the enterprise globally;
- negotiating a rigid monitoring structure within the network as a whole;
- enhancing any ad-hoc social and political side-effects that the microcredit enterprise generates in the local levels.

¹ For the purposes of this research microcredit is defined as a commercial as well as developmental instrument, which extends the credit lines to microentrepreneurs and ranges from \$50-\$5000. The rationale for the study to broaden the limits of the micro-loan size is explained by varying economic conditions in the borrowing regions, where because of high inflation rates the amount of the loan provided for microenterprise development is much higher than in other regions. Despite the differing amounts of the micro-credit, the political engineering of the program set up and its maintenance does not vary much. Since the research is interested in the politics of network initiation and maintenance, the amount of the loan, although very important, is not a central factor for the research purposes. The structure, policy objectives of microfinance institutions, mechanisms of service delivery and other related factors of political engineering of microcredit enterprise are of interests for the research. This study does not downplay the possible effect of the size of the loans on the socio-political impact of the project. However, it does argue that for a deeper exploration of microcredit as a commercial and developmental instrument for the economic as well as socio-political transformations in the developing world, the scope of clientele base and the loans allocated should be expanded.

Global management² of the network can grow through different routes: local, national, international, transnational or a combination of these four. Addressing the issues raised earlier concerning the policy cycles and institutional changes within the enterprise will assist in assessing the aforementioned intervention routes and avoid any dead ends in the process of political management.

The secondary objective of the paper is to provide an analytical framework for a comprehensive study of microcredit enterprise. In this regard, the research raises a question whether or not microcredit enterprise is a global public policy network and further progresses with an affirmative answer to the question posed. Furthermore, a working definition of microcredit global public policy network is provided. It is critical to point out that by no means the research downplays the importance of conceptualization of the object of study. However, due to the research focus of the Global Public Policy Networks project this paper will not delve extensively into the conceptualization of the research, which is more deeply examined in the first draft of this work.

The paper is built around these two research objectives. The first section touches on the conceptualization of the research by discussing the analytical feasibility and policy rationale of proposing policy networks as a framework of study for microcredit enterprise.

² The policy outcomes of the network result from cross-border partnerships among the local clients, western donors, commercial actors and NGOs. The input of microcredit enterprise primarily is provided from the North, while the output (microenterprise development, credit delivery, etc) are originated in the South. Secondly, there is a cross-border knowledge transfer in forms of replicating microcredit models and disseminating best practices. Thirdly, the NGOs are the driving force of the network, which, by the nature of their organizational structure are not tied up to any particular country or region. They are global constructs capable to maneuver across countries and regions. These factors make the global approach to political management of the network almost imperative.

Second section examines the pre-network context of the problem of poverty, network initiation and subsequent policy cycles. The paper concludes with an analysis whether microcredit policy network offers governance outlets in the local levels and if so, how to enhance that process.

The research is based on twenty interviews conducted with the microcredit NGOs, specialized agencies at the international governmental organizations and other intergovernmental forums.

II. CONCEPTUALIZATION OF THE RESEARCH

This section will examine the applicability of policy networks to study microcredit enterprise. In particular, the research is asking how well do the policy networks capture the global public policy space for the microcredit enterprise.

II.1 Microcredit as a Hybrid Network

In the face of globalizing world and rapidly shifting bases that support world polity the networks attract an increasing attention from the academic community and practitioners. Networks offer alternative channels of governance and add a new dimension to the decision making processes in the national and international levels across variety of issues, which accounts for the growing interest among the academicians and practitioners concerning this subject matter. With the risk of simplifying the existing body of literature concerning the policy networks it is possible to distinguish two main analytic approaches of typology: policy communities and issue networks (Thatcher, 1998).

The concept of ‘policy communities’ was offered to capture the policy-making that occurs between a ‘myriad of interpenetrating organizations’ (Richardson and Jordan, 1979). The distinguishing factor in this case is the interdependency between the actors from public and private sectors that formed a group with clearly defined boundaries. Hence, this approach places a heavy stress on the organizational element of network formation and operation. The second approach, the issue networks, which has been put forth by Hecló (1978) and Jordan (1990), emphasizes the ‘issue skilled policy activist’ drawn from conventional interest groups and sections of the government, together with academia and certain professions. Unlike the policy community approach the issue networks are more open and less rigid. They focus primarily on the policy making within a specific issue area, which may not necessarily fit into a single organizational boundaries. Thatcher (1998) argues that the existing network classifications do not capture the whole policy making cycle, particularly the impact of epistemic communities on the policy formulation processes. While I concur with this point, I do not intend to delve on this subject in this work, despite the importance of the issue. However, keeping these arguments in mind let us provide a working definition of microcredit public policy networks. Thus, microcredit enterprise is a multipolar policy network/domain composed of organizational clusters and institutionalized interactions among the interest groups as well as issue skilled policy-activist, which process the input of the network

(knowledge, political will, finances, information, technical expertise, technology) into economic as well as political outputs (employment, local capacity building, social service delivery, institution building, dissemination of political values of transparency, molding opportunity structures of economic and political participation). Specifically, the network functions to mobilize political, financial and epistemic resources, deploy those resources across borders and facilitate economic and political empowerment of the marginalized groups through providing credit lines, assisting with technical assistance, facilitating local institution building and shaping channels of economic as well as political participation.

II.2 Characteristics of the network

The main characteristic aspect of microcredit public policy network is its hybrid nature: microcredit enterprise functions through organizational clusters and generates new organizations in the course of its operation. Interestingly, those organizations are built around various issues, such as advocacy, provision of technical assistance, fundraising, etc. In sum, the microcredit enterprise is primarily an organizational network that, however, has certain elements that are peculiar to issue networks. Particularly, the enterprise has started out by ‘issue skilled policy activists’ from within the organizations as well as outside of an organizational domain. Hence, characterizing the network as an organizational one will not necessarily capture the whole policy cycle that of microcredit policy making.

Moreover, the existing literature on networks is state-centric. Despite the conceptual differences among these typologies they share a common feature: the networks are analyzed in relation to fixed domestic power structures – the state. The strategies of exercising a pressure on the power structures through political mobilization and pressure stresses the state as central for the network structures. The state due to its capacity to shape policies and allocate resources becomes the “power-magnet” within the network. In this regard, the second characteristics of microcredit policy network is the lack of central authority that would guide the network operation. In other words, it is not a state-centric structure and lacks a common authority center that would coordinate the resource mobilization and resource allocation. The absence of a common power center is counterbalanced by scattered “magnets” that possess the vital resources for the network functioning, such as funds, knowledge, technical expertise, political resources (support and advocacy). The success of the network clusters becomes contingent upon the mobilization of all of the aforementioned resources and power centers, which unfortunately not always becomes easy to achieve due to lack of regulating institution. Hence, there might be a need to discuss the networks in terms of their relation to state

institutions. Apparently, the microcredit is not a state-centric network. However, one should not exclude the potential of emergence of power-centers or authority magnets, which may change the power structures within the network.

Thirdly, this research argues that microcredit policy network is multi-polar in nature, which is explained by concurrent initiatives of a project start up in various regions worldwide. Currently, the network is an aggregate of multiple organizational clusters³, which are not necessarily cooperative. The linkages between separate clusters are rather weak and are limited to certain forums of information sharing and knowledge management. For example, the Microcredit Summit Secretariat has created various forums in number of occasions that brought together practitioners, donor communities and governmental officials together. Another type of a cross-cluster linkage are the electronic discussion groups, to which, however, the majority of the microcredit institutions may not necessarily have access to, because they are based in South whether the advanced technology is not easily accessible to organizations. However, more systemic and institutionalized cooperation among the separate clusters does not exist. As one of the respondents from the United Nations has noted different microcredit institutions compete for funding.

Fourthly, the network is global in nature. While the microcredit institutions started up in the South, the supporting institutions were primarily in the North. Specifically, at the initial stages of network formation the microfinance institutions were heavily dependent on the funding, which made the western donor community central figures for network maintenance. Even in case of individual start up of the network, which will be discussed in the next section, it is the policy entrepreneurs from the North/West that provided either the funding and/or created the necessary structure for the project in the local levels. Overall, the resource deployment from the North to South was carried out through Northern intermediary institutions, such as Pact, Development Gap, TechnoServe, Accion International, who set up local offices in the South and processes the money from philanthropic organizations such as Barr Foundation, Citicorp Foundation, Chrysler Corporation Fund, Ford Foundation, Hamilton Foundation, MacArthur Foundation, etc. Quite frequently, the advocacy institutions lobby the Northern Governments in order to attract allocate more funding for the microcredit

³ In this context the policy cluster is defined as an organizational partnership among microcredit NGO, grassroots, donor community and other involved actors, which enter into informal as well as institutionalized relationships with each other and deliver financial (microcredit delivery) as well as socio-political resources (establishment of health care units or any other form of local capacity building).

projects in the South. The institutional structure of the Consultative Group to Assist the Poor (CGAP) housed by the World Bank is a global in nature, which is an intergovernmental forum that brings together the North to assist with the knowledge management and resource deployment to the South. In this regard, the institutional linkages across various states that fuel the operation of the separate clusters shape the global nature of the network. Hence, right from the beginning the separate clusters were global, because the start and operation of microfinance institutions was contingent upon the partnerships that cut across state boundaries. However, it is critical to note that the linkages among the separate clusters became more reinforced only in late 1980s and early 1990s, when the network has stepped into its second phase of operation to be discussed in the next section.

Now that the general characteristics of the network has been discussed let us turn to the more politics of policy cycles, which will address some of the aforementioned characteristics in a greater detail.

III. POLITICS OF POLICY CYCLES

III.1 Pre-Network Context of the Problem of Poverty: Why from South?

The microcredit policy network has initiated in late 60s and early 70s, when the developmental policies originated in the North were undergoing through drastic changes and the social indicators of the developing world were continuing to decline. The genesis of the network was a direct response to the problem of world poverty, which at that point mainly was addressed through mainstream developmental instruments, such as injecting foreign aid into the infrastructure to generate economic growth. Subsequently, the economic growth would translate into the poorest strata of the society, so they argument went. The aid industry driven by Bretton Woods institutions and the United Nations were evolving from trickle down approach (strong focus on infrastructure development, investments in transportation and petroleum production, manufacturing industry) to "basic human needs" approach (heavy stress on agriculture and rural development, nutrition, land reform, housing, education, etc.) (Meerhaeghe, 1985). These trickle down policies were not effective enough to reach the grass roots and result in a sustainable development. Unlike post-war Europe the trickle down approach did not prove to be effective because of the lack of human and institutional capacities to absorb the incoming funds at all levels of societies (Hellinger, Hellinger and O'Regan, 1988). Small circles of political and economic elites of the developing world and limited institutional base appeared to be the only viable channels of absorb the aid funds money (Hellinger, Hellinger and O'Regan, 1988). This approach to development coupled with liberalizing markets exacerbated the relative standing of the poor in the developing world. The national governance structures, as the main medium between the international funding sources and the poorest strata of the society, did not prove to be an effective channel for aid package to translate to sustainable development. Two of the respondents representing an NGO and an IGO, placed a particular stress on the negative impact of governance structures to deliver cost-effective policies. Another respondent (NGO) particularly emphasized the high administrative costs of the governmental policies and pointed out how those administrative structures absorb the funding, which would be used more constructively in case if reached the poor. The operational costs of the national governance structures was identified as the main incentive and trigger for one of the NGOs to deliver funds and services through microcredit projects in Dominican Republic. This particular social entrepreneur has established direct links with the grass roots by distributing \$100 per person, which should be used for microenterprise development purposes. Subsequently, direct targeting of the poor

became the basis of the NGO, which grew out of the individual efforts of the aforementioned social entrepreneur.

In contrast to the orthodox developmental policies the microcredit had started out as a participatory approach, because it was not contingent upon the Northern knowledge. It is an instrument that is rooted on the existing human capital and *metis*(Scott, 1998). The later is defined as a wide array of practical skills and acquired intelligence in responding to a constantly changing natural and human environment (Scott, 1988). The practice of *metis* is strictly local and makes the basis of microcredit enterprise. Although the microfinance institutions provide technical assistance to the applicants for microloans, it is up to applicants to decide what type of business to start up, what to grow or produce, how much and how. Even the knowledge base provided through technical assistance and capacity building is filtered through the local acquired knowledge base. Unlike the mainstream developmental policies the decision making pertaining to allocation of the resources was highly transparent and in number of cases was conducted by the locals themselves. For example, TechnoServe heavily relies on the locals in running up the local offices. In many cases it is the locals who make the decisions on allocating funds, approving business plans and in number of cases conducting workshops on business administration, accounting, literacy, etc. Due to organizational complications TechnoServe had to move out from one of the African countries it had office back in 1980s. Subsequently, the local staff had continued running the local office by transforming it into an NGO. Number of NGO respondents pointed out that they employed a mixed staff of local community members and Western professionals in running the local branch offices. This is a predominant management style and points out the existing outlet of participatory development that the microcredit global public policy network provides. An interesting example that supports this argument is a project conducted by Pact in Nepal. Along with assisting with funding and technical expertise to the local microentrepreneurs Pact has designed a project, during which the women in Nepal taught themselves to read and the basics of accounting. Moreover, these women received an invitation to carry that project in the neighboring village. This process was supported by manuals and small guidance that Pact has provided to the women in Nepal.

Thus, the trickle down approach to development and microcredit are diametrical paradigms of development. The establishment of the later has been perceived to change the power dynamics of the aid constituencies both in the West and in the national governance structures, some of which are yet to eliminate the corrupt elements and nepotistic structures from their institutional make up. The threat to the status quo in aid politics was one of the

factors for the microcredit projects to develop through informal channels. Secondly, the microcredit practitioners yet had to build the professional credibility of the projects, which later on contributed to the institutionalization of the network in the international community. As a result, trickle down approach to development has been supported by the existing national and international structures, whereas the microcredit has started out as a highly informal network. The first attempts of microcredit and microenterprise development projects were initiated by Grameen Bank in Bangladesh, Trickle Up in Dominican Republic, TechnoServe in Kenya and Nigeria, etc, which however, were not linked to any formal developmental policies and international governmental organizations. The institutionalization of the microcredit network and systemic attempts of mobilizing funding structures culminated with the formation of CGAP, SUM/UNDP and Microcredit Summit Secretariat in 1990s. At the start up stage, the lack of structure supporting microcredit is the major indicator of a latent tension between the two developmental paradigms, although an explicit clash between the two did not occur. In early 70s microcredit was mainly known through the image of Grameen Bank in Bangladesh, and the stronger interest among the policy makers in the international governmental organizations about the microcredit did not emerge until early 1980s⁴. In this regard, Grameen Bank, as a success story, was critical to attract attention from the policy makers and academicians. Despite the initial skepticism about the project, difficulties connected with the start up funds to cover operational costs, the microcredit institutions offered models that were possible to replicate and hence, to create a critical mass of microcredit practitioners. This was also an important determinant to facilitate the credibility of the network and legitimized it among private and public donors. Moreover, the support of private foundations, donations and joint funds of the local communities molded the institutional autonomy of the network from the governmental developmental agencies. It allowed for the diffusion of the tensions between the two paradigms and formalization of the network in the international community, which was signaled by formation of CGAP, Special Unit of Microfinance/UNDP, Sustainable Banking with the Poor/World Bank, etc.

⁴ However, the Pan American Development Foundation (PADF), is an NGO created by the Inter-American Development Foundation. PADF since the beginning of its insemination in 1962 was engaged in microenterprise development. This variation from the general pattern mainly is explained by the legacies of small businesses and collective structures of agriculture, which in the case of Bolivia became one of the major preconditions of success for BancoSol. In other words, already existing informal sector became a basis and a trigger for PADF to incorporate private sector development for the poor in Latin America.

Thus, the pre-network context was shaped by the institutional bargaining games among the mainstream developmental policy structures and the microcredit policy networks. The institutional strength of these policies was unequal: the mainstream developmental policies were supported by highly formalized governmental structures, while the microcredit was driven by the non-formal public-private partnerships. In other words, microcredit emerged outside of the domain of already sustained developmental institutions, mainly the international governmental organizations. Most importantly, the newly emerged microcredit institutions took on the task of poverty alleviation, which overlaps with the agenda of developmental institutions. Aggarwal (1998) refers to this process as formation of “parallel linkages”, which later on contributed to the “institutional nesting” processes within the IGO community. This aspect of the institutional games will be discussed in the next section.

Summarizing, let us reiterate that in the network formation was a reaction to a social crisis of poverty. The magnitude of the problem area coupled with the institutional autonomy of the microcredit institutions made the crystallizing of the microcredit network much smoother than it otherwise would be.

III.2 Network Initiation

The network was initiated as a dispersed and informal counterbalance to existing failed systemic attempts of development and poverty alleviation. The network initiation is characterized by individual and institutional modes, both of which were sporadic and informal in their nature. *The individual mode of network initiation* is characterized by an individual commitment to the idea of microcredit. In this mode of network initiation the policy entrepreneur who promotes the project either commits his/her own resources as a start up fund or draws other donors into the project by lobbying, knowledge transfer, education, fundraising, etc. In this case the number of members involved and type of actors is small. The network is not characterized with diverse linkages with other actors of business community, such as commercial banks and corporations. Resources allocated in this cycle are limited to funds and in some cases even equipment. For instance, in late 1960s Pact has started out to provide technology and technical expertise to African countries, which was fostered by the founder of TechnoServe. The initial funding came from fundraising and mobilizing the savings of the locals to create a common account to purchase the technology. Opportunity International is another microcredit NGO that was emerged through the individual route of

initiation, which currently has quite complex and broad organizational base worldwide. In this mode of network initiation the originated cluster engages in extensive negotiations between the grass roots and the policy entrepreneur. Seven out of eleven NGOs and financial actors interviewed have followed individual patterns of initiation, which indicates the significance of individual policy entrepreneurs in promoting the network and the informal nature of the network initiation. In this case these social entrepreneurs had been engaged in lobbying to private foundations, national governments and communities trying to “sell” the idea of microcredit. The main form of outreach was the “word of mouth”, as one of the respondents has indicated. Strong ties with the media, as a powerful outreach channel, was not established at that particular time period and forms of knowledge transfer within the country remained highly informal.

Another characteristic feature of the individual mode of network initiation is the significance of social entrepreneur as a charismatic leader in starting up the projects. All of the NGOs, which demonstrated individual mode of network initiation, pointed out a distinguished leader as a primary trigger of the network cluster start up. The primary reason for that particular person to lead the process was the availability of certain financial resources that the leader committed for the projects, the desire to bring up a social change in the realm of world poverty and their enthusiasm with the idea of a microloan. In this regard, the limited funds that these leaders possessed made the microcredit even more attractive option to pursue because it was build on the premise that the finances injected into the network would continue to circulate and in case of success, no additional funds would be needed. This was critical for ensuring the sustainability of the project and guaranteeing its continuity.

Along with the maturation of the network as a whole the nature of the leadership changed as well. Even in the individual mode of network initiation the nature of leadership within specific clusters progressed to be more institutionalized with the establishment of an NGO. Formation of an organization was further completed with the establishment of the Board of Trustees, which in number of cases were representatives of private sector. This organizational change helped the NGOs in terms of obtaining funding, which is a central limitation for the individual mode of network initiation.

In certain cases the initiation of the network was complicated when the clients disappeared with the money or equipment received for the purposes of microenterprise development. Limited funding had constrained the possibility of establishing strong monitoring mechanisms. Moreover, lack of staff willing to travel to developing countries was

yet another challenge that has occurred in the individual mode of network initiation. Despite the limitations of the individual network initiation one should not discount the significance of these individual efforts in making the network sustainable, which further had attracted the attention of a larger policy making community. The example of the Grameen Bank is the most vivid one in terms of individual mode of network initiation. It comes to demonstrate the role of individual efforts in bringing a social change powerful enough to be replicated in number of countries.

The most significant aspect of individual network initiation is the prevalence of concurrent efforts, which further had shaped a multi-polar structure of the current microcredit policy network. In other words, the current structure of the network is partly a function of the modes of its initiation. The interviews with the respondents representing various NGOs evolved through individual mode of network initiation demonstrated that the concurrent start up of microcredit projects included Kenya, Nigeria, Nicaragua, Dominican Republic and Bangladesh. The geopolitical scope of the network was further enhanced when the network became institutionalized through establishing NGOs. The organizational sophistication of the network increased the mobility of the network and assisted with a wider outreach of the project in terms of regions covered. Currently, those NGOs, which followed the path of individual mode of network initiation, progressed to establish branch offices in number of locations. For example, TechnoServe, an individually based and promoted NGO, currently is working in El Salvador, Ghana, Kenya, Mozambique, Nicaragua, Panama, Peru, Poland, Tanzania and Uganda. Since 1968, TechnoServe has helped to improve the lives of nearly 3 million men, women and children in 21 countries throughout Africa, Latin America and Central Europe. Trickle Up, yet another individual-based NGO active in microenterprise development helped to launch nearly 3000 businesses in 26 countries in 1997 only. Currently Trickle Up operates in 50 countries around world.

The institutional mode of network initiation is driven by internal organizational changes of a non-profit organization, when the organization mobilizes its institutional and financial resources for a particular microcredit project. This form of internal organizational adjustment is referred to as ‘institutional nesting’ (Aggarwal, 1998), when broader and narrower institutions emerge and operate through hierarchical authority structures. Four respondents representing NGOs that followed institutional mode of network initiation have pointed the establishment of a special unit of microfinance within the existing organizational structure. This pattern of ‘institutional nesting’ was effective for enhancing the delivery of financial and technical services. Moreover, the institutional nesting eased for the microcredit

projects to link to the capital markets and diversify their funding opportunities. Some examples of institutional nesting and institutional mode of network initiation include but are not limited to establishment of Microfinance Working Group in Pact, Microenterprise Development in ACDI/VOCA, Special Unit for Microfinance in UNDP, Sustainable Banking with the Poor in the World Bank and Microfinance Development Unit in IADB. Since the newly formed microcredit units were able to employ the existing organizational base of these NGOs and IGOs, these units were more efficient in their outreach (quantity of clientele), monitoring and provision of technical resources. However, it is critical to point out that individual forms of network initiation were at the forefront compare to the ‘nested’ microcredit institutions.

The newly established specialized agencies were tuned in with the overarching policy objectives and developmental mission of the particular NGO. For example, Pact, aims at developing civil societies and places a heavy stress on the participatory development approaches at the community level (Pact, 1998, which is an objective conducive to microenterprise development. This overarching policy mission provided an easy entry of the microcredit projects into the Pact’s policy priorities, because the microcredit is an instrument of participatory development and community building. The heavy stress on civil society development and promotion of economic, social and environmental justice (Pact, 1998) contributed to the formation of Capital PLUS model of microcredit, which underlines not only the credit delivery, but also institution building and human capital development that would support the microcredit projects. As a result, Pact came out with a microfinance model composed of three pillars in the microcredit project designs: financial capital, institutions and human resources. Capital PLUS model as a microcredit project design is distinguished from the other models employed by the rest of the NGOs with the explicit stress on the social and political outcomes of microcredit, which is an economic instrument of development.

Not only the overarching policy priorities of the organization influence on the microcredit project designs, but also the management structures of the NGO. Specifically, the organizational scale of the NGO, its links established with the donor communities, composition of the governing boards and availability of branch offices shape the financial instruments employed in the microcredit programs, sources of funding, degree of their commercialization and sustainability, outreach strategies and geographical scope of the project activity. For instance, Accion International employs mutual trust funds, revolving loans, ‘credit letters’ as financial instruments to provide funding to the local institutions. All of these mechanisms are designed to be utilized in partnerships with other private actors, such

as Northern commercial banks. Hence, already having institutionalized relationships with other actors, these microcredit NGOs have a favorable position to use those relationships to shape the financial instruments described above.

Despite the mutual influence between the internal operation of the NGO, its mission and organizational structure on the one hand, and the established microcredit program designs on the another hand, there is a need to clarify how and why these NGOs become interested in microcredit projects. While the fact that microcredit programs enhance the overarching organizational objectives of the NGO (microcredit fosters civil society), the role of philanthropic organizations in linking the two together is also a strong one. In which country and region the NGO will choose to land and what projects it will choose to develop is to a certain extent shaped by the funding opportunities offered by the private foundations. One of the NGO respondents had pointed out it as a critical factor for the NGO behavior, although the institutional identity of the NGO expressed through its developmental mission is a strong counter argument. In any case, it should be clarified that philanthropic organizations were (and still are) critical in expanding the microcredit policy network by opening up the opportunity structures for the NGOs to carry out microcredit projects.

Overall, there are not significant differences among the microfinance institutions that evolved through individual or institutional pattern of initiation. However, the NGOs that have started out through institutional route are quicker to go through the learning processes than do individual NGOs. As it was discussed above, almost all of the NGOs that have followed institutional modes of initiation tend to employ much more sophisticated financial mechanisms, diverse elements of service delivery than do individual one. Secondly, the NGOs with an institutional pattern of initiation tend to grow faster than those with individual modes of initiation. While this argument needs a more extensive research, it does point out to some possible trends and patterns that microfinance NGOs are inclined to follow.

III.3 Policy Cycles and the Institutional Changes Within the Microcredit Policy Network

How the network evolved and what are the institutional changes that reflect that evolution? This is the central issue explores in this section, which centers around the policy cycles that have followed the network initiation discussed earlier. Such network dimensions as changes in public-private partnership structures, the leadership structures and legal-institutional

environment of the network are some of the elements that easily reflect the policy cycles and institutional changes resulted from it.

Reinicke (1998) identifies the following policy cycles: initiation, policy formulation/negotiation, implementation, compliance and policy reformulation/institutional learning. Due to the fact that microcredit policy networks are characterized by their multi-polar structure, the aforementioned policy cycles do not easily fit into the aforementioned framework of policy cycles. Specifically, different clusters of the network built around the microcredit NGOs have been going through the aforementioned policy cycles concurrently, and resulted in a cumulative effect of institutional learning of the network as a whole. The paper claims that attracting the private sector into the network and diversifying their sources of funding is the first policy learning outcome that the network possesses. The second outcome was the formalization of the network through the formation of agencies within the international governmental organizations as well as outside of their domain. Having these two learning effects in mind, the paper turns to discuss the policy cycles of the network based on the classification proposed by Reinicke (1998).

The initiation as a policy cycle is already examined above, and the individual and institutional modes of network initiation have been presented. This is why the study progresses to examine the negotiation and policy formulation stages of policy cycles.

III.4. Negotiation Policy Cycle

There are two channels of negotiation observed in this network: vertical and horizontal. Vertical or hierarchic negotiation structures include the following three negotiating forums: local/cluster level, governmental level (includes the legal and political domestic environment of donor as well as recipient countries) and intergovernmental (bargaining among the donor or recipient countries). These negotiation forums capture different levels of network operation and participating actors are in hierarchical position in relation to each other. Horizontal bargaining structures involve the processes of partnership establishment between two or three parties, which possess relative legal and institutional equality (bargaining among two NGOs or an NGO and a commercial bank). This negotiation forum is referred to as global because it cuts across the territorial boundaries as well as political systems.

As it appears from this classification the negotiation forums within the network are quite fragmented and do not possess a central decision making unit. Moreover, all of the

aforementioned negotiation forums have been emerged in different phases of network maturation to be addressed later on. At this point, it suffices to say that local/cluster and global levels of negotiation emerged at the first phases of network maturation prior to the formation of institutional and formal dimension of the network. The governmental and intergovernmental bargaining are characteristic of the second phase of network maturation, when the network acquired formality and entered into the institutional domain of policy making, appeared on the agendas of national governments and IGOs, established institutionalized linkages among the donor countries, private sector and the social movements. With this caveat, the paper turns to examine the aforementioned negotiation forums and provide some examples that demonstrate the discussing negotiation features.

Local/cluster level. Despite the differences in various organizational structures among the network clusters, they demonstrate relatively similar patterns of negotiation and policy formulations due to the similarities of the socio-economic difficulties they have faced and political conditions that they evolve in. Respondents, representing NGOs established through individual as well as institutional modes of network initiation pointed out constant negotiations with the grass roots expressed through educational workshops to inform the locals about the idea of microcredit. One of the respondents pointed out the role of media in that process, which had been critical to disseminate the best practices of microcredit in Nicaragua and Ghana and give credibility to the microcredit NGO working in the region. The mass media has been an important vehicle to create trust within the local communities through sharing the success stories of the organization, which contributed to the continuity of the microcredit projects even after the NGO moved out of a particular country. This was the case in Nigeria, where the NGO had to leave program because of the funding cuts by a private foundation. However, the local groups established an NGO of their own and continued to run the microcredit project.

Governmental level. The negotiation in this level is highly institutionalized and is conducted within the legal context of donor or recipient countries. The amendments to legislation or adoption of new legislative pieces that reinforce the institutional power of one actor over the other are the outcome of this process. This level of negotiation within the network is complex enough to stimulate a whole new research of its own. Hence, this study does not aim to uncover all of the nuances of the bargaining process in that particular forum. This section will focus on the United States to discuss the Microenterprise for Self-Reliance Act of 1999, the objectives it aimed to achieve and the resistance it had faced in the Congress.

In 1997 the Results, an advocacy NGO, which has been engaged in extensive lobbying at the Congress pertaining to the microcredit related policies, was successful in pushing the Microcredit for Self-Reliance Act of 1997. The Act called for increased funding for microcredit programs, which would bring changes in the allocation of the foreign assistance to the developing world provided by the United States. In the final bill the funding was not specifically protected (Results and Results Educational Fund, 1997), but \$135 million for microcredit was strongly recommended. Hence, the success of the Act was partial, because it did not guaranteed the funding to microcredit and failed to established microcredit as a viable developmental instrument. Moreover, two years later the Microenterprise for Self-Reliance Act of 1999 (H.R. 1143) was introduced with specific aims to establish microenterprise as a viable conduit of United States foreign assistance to developing world; to increase the amount of assistance allocated for microcredit and most importantly; to encourage the USAID to coordinate microfinance policy in consultation with the Department of the Treasury and the Department of State; and to provide global leadership in promoting microenterprise for the poorest. The Act was being pushed by an advocacy NGO in the field of microcredit, which had the support of other donor countries. In case of being accepted the act would increase the legitimacy of the microcredit as a developmental instrument. It would engage the United States developmental institutions more actively in institutionalizing the network and creating coordination linkages among the Department of Treasury, Department of State and United States Agency for International Development. The Act did not pass, which was a big step back towards penetration of microcredit into the institutional frameworks of the United States. The presentation of the Act was a culmination of the bargaining between the microcredit/developmental community and the governance structures of the state. The failure of its passage declared a stalemate in that bargaining game and postponed the formal merging of two professional communities as well as hindered the institutionalization of the microcredit through the governance structures.

Intergovernmental level. The intergovernmental negotiation forum of the microcredit enterprise is shaped by a variety of players (such as Inter-American Development Bank, USAID, World Bank), and this section will address the most visible ones, which have managed to engage the highest number of donors and practitioners as well as attracted the most diverse membership.

The recent start up of Consultative Group to Assist the Poor (CGAP) is the first case of intergovernmental negotiating forum, which is a donor consortium housed within the World Bank. Ten donors, both national governments and intergovernmental agencies, started

up the project in 1995, and sixteen new members joined to the project to assist its initiation. The main objectives of CGAP are:

- to disseminate the best practices to practitioners and policy makers;
- to contribute to the development of supportive policy environment for MFIs;
- to support innovation in the sector through direct investments in a select number of MFIs.

The formation of the CGAP institutionalized the forum among the donor countries, which pulled their resources together to provide funds for the local microcredit programs as well as to disseminate the best practices among the network members. By bringing major donor countries together CGAP aimed to emerge as a central institution that would coordinate the funding, provide technical assistance as well as engage in capacity building. More importantly, CGAP has been active in knowledge management. They disseminating the best practices, which serve as a criteria that funding communities started to use in deploying finances for different projects.

The funds are distributed in the forms of grants with a condition that the recipient will reach certain number of active clients and guarantee a certain level of delinquency rate. By having an access to finances through donor countries the CGAP exercises one policy voice of sustainability without necessarily making changes in its organizational structure or developing new financial instruments, that would increase the sustainability of the microcredit programs. Moreover, CGAP targets already sustainable institutions, which facilitates achieving the objectives it sets forth. Due to its intergovernmental membership CGAP is a strong candidate to function as a central decision making body for the whole network.

Another intergovernmental forum of policy formulation is the Microcredit Summit Secretariat, which was held in 1997, in Washington, D.C. The Summit was launched by the Result Educational Fund, which laid the foundation for a global campaign to reach 100 million of the world's poorest families by the 2005. (Results and Results Educational Fund, 1997). Over 2900 people from 137 countries have attended, which included senior officials of both the donor as well as recipient countries. Eight members of Congress addressed Results-organized press conference and informed about their intentions to push for legislation that would help to leverage the US foreign assistance into the microcredit. The Summit provided channels of discussion for the practitioners and policy makers. The most important

contribution of Summit was the institutionalization of that negotiation forum through establishment of Microcredit Summit Council.

‘Each representing a different sector of civil society, the Microcredit Summit Councils are forums for similar organizations to support one another in developing and implementing institutional action plans for contributing to the Summit goal’ (The Microcredit Summit, 1997, 44).

The organizational structure of Councils resulted from the Summit, fostered specialization within the actors and complementarity of the resources mobilized by each actor. By proposing a concrete action plan and being aware of the contributions of the rest of the actors, separate actors of the Summit establish avenues of policy change among themselves. The negotiation among these actors is conducted through action plans, which are submitted to the Summit regularly. The action plan of a specific actor lists the objectives that the actor intends to accomplish and draws the limits of action. The structure of councils is open and any actor can join if it commits itself to the goal of reaching 100 million poor by the year 2005. As one of the respondents have indicated the number of practitioners registered with the Summit increased from 800 in 1997 to 1557 in 1999, registered NGOs increased from 380 in 1997 to 586 in 1999. The number for parliamentarians was 120 in 1997 and 152 in 1999. The number for banks and commercial finance institutions jumped from 40 in 1997 to 109 in 1999. Despite drastic increase among commercial actors, the numbers for corporations were not that impressive. In 1997 there were 20 corporations registered, which increased to 37 in 1999. There were 11 donor agencies registered in 1997, which was increased only by 3.

Thus, as it appears there are two central forums within the microcredit policy network, which are situated in proximity from the donor community as well as from the practitioners. Both the CGAP and Microcredit Summit Secretariat possess the necessary political resources and institutional power to mobilize the microcredit policy network and create a common axis for various network clusters. However, at the same time it is important to point out the differences of philosophies of operation of these two organizations.

‘Competing organizations are quite fascinating. There is CGAP, which is a technocratic network with a focus of spreading the best practices. Then you have Microcredit Summit Secretariat, which takes a more needs based and partially political mobilization stand. They overlap and disagree a lot. CGAP wants to do it right. Summit thinks of the existing need. Tension between the two is good’ (An anonymous Interview with a representative from an IGO, October, 1999).

According to the interviewee these organizations are complementary by their approaches although they tackle similar issues. This is yet another instance of ‘parallel linkages’, which occurred in early 1970 among the mainstream developmental community and microcredit practitioners. At this point the bargaining games at the intergovernmental level seems to eventuate in the formation of ‘parallel linkages’. However, it is early to tell whether a common institutional nexus for the network is still to emerge or institutional negotiations will progress into deepening of the already existing ‘power-magnets’. At this point, the main problem of coordination in allocation of funds to microcredit institutions is not addressed through any of the previously discussed power centers.

Most importantly, the direction of the institutional bargaining is highly contingent upon the dilemma that currently the microcredit community faces: development versus sustainability through commercialization. Is there a trade-off between the two or there is a possibility to make those objectives complementary? The research argues that for the two policy objectives to be complementary, an institutional specialization *within* and *among* the clusters is imperative. In case if the institutional bargaining within the network follows this growth pattern, then the creation of a common axis becomes questionable. At the same time one could argue that the specialization within the network will necessitate a formation of common policy avenues between the developmental and commercial wings of microcredit network. This measure would allow the developmental institutions to target the poorest, prepare them for a more commercial projects, which may involve higher interest rates and no subsidies and eventually ‘hand them over” to the commercial clusters. Concurrent specialization and integration will assure more efficient deployment of subsidies and donations across the network, and will translate into a need of a common coordinating body to oversee this process of political management of the microcredit public policy network.

At this point the institutional negotiation at the inter-governmental level is still in the process and it is early to make any types of analysis. However, the doors are open for the policy makers to make some choices concerning the network development: specialization and divergence of development from the commercialization and/or establishment of mechanisms to connect the developmental objectives with the commercial ones. There are gains on both ends of the spectrum: commercialization assures the sustainability of the network, while the ‘socially-oriented’ NGO target a broader range of poor clientele and generate a significant impact. On the one end of the spectrum there is the BancoSol, a highly commercialized cluster, while on the another hand we have Trickle Up, which targets not only the poorest clients, but also specific categories of socio-economically and politically disadvantages, such

as refugees and soldiers in the post-conflict regions. The projects promoted by Trickle Up in post-conflict regions aim at demobilization of soldiers and their integration into civilian economy.

Summarizing this section, let us reiterate that the policy makers and practitioners are still to make two conceptual choices. First, the international community has to situate the microcredit in the overall poverty reduction strategies of the mainstream developmental community (Serageldin, 1998). In this regard the bargaining games among the microcredit practitioners on the one hand and international governmental organizational, developmental agencies and national governments on the other hand will become determinant factor of political management. The earlier described case of Microenterprise for Self-Reliance Act of 1999 demonstrates that there is a resistance among certain governmental actors, which is not the case in the international policy making domain. Both the World Bank and the United Nations demonstrated a strong commitment in the microcredit policy network by making adjustments within their respective organizational structures. They adopted resolutions that confirm microcredit as a legitimate instrument in poverty eradication (in the case of the UN) and mobilized resources for the microcredit practitioners (in the case of the World Bank/formation of CGAP).

Secondly, the intergovernmental bargaining will be impacted by a conceptual choice of the policy makers to either specialize and separate the development from commercialization or look for mechanisms to connect these two objectives and specialized forums together. At this point, the intergovernmental negotiations within the microcredit policy network did not result in a common policy voice among the actors. However, the lack of common institutional identity within the microcredit policy network is counterbalanced with broadened forums among the two 'policy-magnets of the network (CGAP and Microcredit Summit Secretariat)⁵. In the local levels negotiations translated in formation of pact between the locals and the microcredit NGOs. New contractual structures (Morduch, 1999) are emerged between the commercial actors (banking system) and the poor. However, a further research concerning the composition of the parties and profiles of clients is needed (Morduch, 1999) in order to capture the nuances of the bargaining games as well as predict

⁵ Although there is at this point there is no closure to the bargaining games between CGAP and Microcredit Summit Secretariat.

the bargaining outcomes at the local levels. Moreover, it will assist to understand what kind of partnerships and social contracts are being developed and how to facilitate that process.

The prevalence of at least two different institutionalized negotiation forums in the intergovernmental level (CGAP and Microcredit Summit) is a result of network transformation and institutional learning processes that have occurred after the network completed one phase of policy cycle (late 1960s – early 1990s). Specifically, the formation of CGAP, SUM/UNDP, Sustainable Banking with the Poor/World Bank pushed the microcredit into an institutionalized forum and linked various policy clusters with newly emerged specialized agencies. Another indicator of learning processes that have occurred within the network is the increasing involvement of the private sector, which drastically contributed to the commercialization of certain clusters. The nature of public-private partnerships became more diverse and there has been an increase of specialization among the microcredit NGOs. Specifically, organizations such as Result, Microcredit Summit Secretariat and Inter-Action were engaged in lobbying, information sharing and knowledge management. TechnoServe stood up as an institution providing technical assistance to the local microentrepreneurs. Opportunity International was active in deploying funds. As a result at this time period these NGOs increasingly become involved in joint projects and tended to carry out different elements of the same projects funded by the World Bank, United Nations or USAID. Also, the learning processes were not monolithic. In other words, separate clusters completed the policy cycle with different pace. Overall, the whole network composed of various clusters increasingly is being fused with the orthodox developmental policies as well as with banking practices in various regions. For instance, in Bolivia the banking regulation contributed to commercialization of the network and transformed the existing banking practices. Hence, the particular cluster of PRODEM/BancoSol has surely completed one policy phase and went through learning processes. This trend is characteristic for number of cases, which overall generate a cumulative impact in terms of reconsidering the role of private sector involvement within the network.

Subsequently, the governmental and intergovernmental negotiation forums emerged only in the second phase started in early 1990, when the network became more formalized. During the early stages of network initiation the bargaining was mainly occurring in the local grass roots level. Only the formalization of the network in the second phase opened up new forums of deliberation and negotiation. This stipulation can be generalized to all of the policy cycles differentiated by Reinicke (1998). A further exploration of two policy phases of

microcredit networks will be presented later on. At this point the research turns to address the implementation and compliance policy cycles.

III.4 Implementation and Compliance Policy Cycles

To capture the dynamics of the implementation and compliance policy cycles of the network, this section examines the local institutional structure of the network clusters. It argues that the local institutional design of the network shapes the implementation structures of service delivery and monitoring. For a more detailed analysis of this argument let us turn into concrete examples that represent radically differing management structures in the local levels.

Model A. One of the respondents representing an NGO pointed out the absence of branch offices of the organization she represents. To save on administration costs this particular NGO has created a system of local task coordinators, which are either local volunteer NGOs or professionals that are paid by the United Nations. Grants are the main financial mechanism employed by the NGO, which are allocated to the applicants by the local task coordinators. The main office of the NGO based in the United States conducts monitoring of the project by three or four site visits per two years. The local task managers engage in decision-making in regards to the eligibility of the applicants to apply for grants. After the eligibility based on poverty levels is established, the local task managers allow the applicant to complete a business plan, which further is being forwarded to the main office. Lastly, the main office allocated the funds for the businesses in the local levels.

This form of management structure possesses certain advantages and drawbacks. On the one hand this particular management structure enhances the partnerships between the NGO and other commercial units and local NGOs during program implementation, which is a desirable policy outcome. On the another hand, this particular policy design shapes a fragmented policy environment, which blocks out possible channels of innovations. Specifically, the absence of retail outlets that are part of the central office diminishes the probability of institutional learning, since the main office is deprived of regular contacts with the grass roots. Service delivery methodologies in this framework are not being redesigned and reinvented to result in new financial products. Moreover, this institutional design is also characterized by a break down between the more comprehensive policy formulation in the center and the local levels of service delivery, because the main office and the local task managers are part of different organizational structures. The main office, which is the carrier

of a more systemic policy formulation, becomes distanced and detached from the policy implementation. The fragmented implementation structure resulted from this particular institutional design is not conducive to the institutional learning.

Model B. To point out the direct linkage between the management structure and the implementation outlets of the program let us consider a different case characterized by a “traditional” institutional design: superstructure and retail outlets (Rhyne and Rotblatt, 1997). Grameen Bank, Bank Rakyat Indonesia (BRI), Banco Solidario and Actuar Bogota, despite number of organizational peculiarities, are leaned towards the “traditional” model of policy implementation and monitoring. All of these institutions are characterized by having relatively similar service delivery methodologies and a dense net of local retail outlets. The number of retail units for Grameen Bank in 1993 was 1,030 with 180 clients per outlet staff. That indicator for BRI was 3,235 with 115 clients per outlet staff. The number of Actuar Bogota and BancoSol in 1993 was 13 with 226 clients per outlet staff and 18 with 281 clients per outlets staff respectively (Rhyne and Rotblatt, 1998). The increase of staff members is a function of increase in the client base. Once the number reaches thirteen, a new retail outlet is being opened, which although increases the administrative costs, but it also assures the close contact with the clientele and cultivates financial viability of the lenders. The number of outlet staff in these organizations varies from 5 in BRI Unit to 13 in Actuar Bogota (Rhyne and Rotblatt, 1998).

The implementation structure of these programs is highly affected by the socio-political development of the retail outlets and superstructure. Actuar Bogota intends eventually to provide full range of services to its microlenders, which will vary from financial (credit training, savings, insurance) to social services (housing, health care, recreation). To deliver these products certain institutional changes at the local as well as in the superstructure will need to be made. Subsequently, this will translate into changes in the service delivery mechanisms and implementation structures of the project.

Another factor that has the potential to impact the implementation structures of the network clusters are the outcomes of intergovernmental bargaining outcomes, which will result in certain institutional support structures capable to cater either the developmental needs of the poor and/or commercialization of the microcredit enterprises. This aspect already has been addressed earlier. So now let us just to reiterate the link between the dynamics of intergovernmental negotiation forum and the local implementation mechanism. For instance, the shift to commercialization may result into increase of local commercial banks as agents of

service delivery. In case if the bargaining translates into developmental route of microcredit enterprise development, the developmental agencies along with donor community will lead the game. At this point, it is unclear which route will be chosen by policy makers and practitioners. Hence, the implementation mechanisms continue to evolve in an ad hoc and case by case basis.

The main feature of implementation structure of the “traditional” superstructure-retail outlet design of microcredit projects is the local institution building as a policy outcome. The increase of client base translates into increase of retail outlets, which maintains and strengthens the decentralization within the network and community. Decentralization in the context of microcredit is an institutional asset that allows more policy feedback for the practitioners and fosters channels of institutional learning. Although the aforementioned examples of retail outlets are characterized by a high level of standardization and replicability (Rhyne and Rotblatt, 1998), at the same time their proximity to the clientele and interaction with the clientele allows catering to the peculiarities of local political, cultural and social contexts. The decision to employ solidarity group based models or individual models of lending in implementing the policies, is an issue deeply rooted in the make up of cultural norms and values of the local setting. Only the decentralized implementation structures will allow detecting peculiarities of this category. Also, the “traditional” implementation structures provide continuity between the overall comprehensive policy cultivated by the superstructure and the actual service delivery by the retail outlets, which was not the case in model A.

As a result of different management designs and implementation structures the aforementioned organizational models demonstrate different patterns of geopolitical mobility. According to a respondent representing a Model B cluster the NGO chooses to land in one region of the country over the other because of transportation costs and already established contacts with the locals. In this case, the administrative costs and funding requirements provided by the donor communities shape the geopolitical behavior of the NGO, which not always translates into efficient targeting of the poorest. The Model A cluster has more flexibility in targeting, because its administrative costs are not as high as those for the model B. Interestingly, the model A is situated more towards the developmental objectives of microcredit, whereas the other clusters of Model B discussed above are exemplars of commercialized network clusters of microcredit enterprise. Hence, the conceptual choice between development on the one hand, sustainability and commercialization on the another hand again emerges as critical for implementation policy cycle. Almost all of the policy cycles are penetrated with this dilemma, and the implementation is not an exception.

Lastly, the implementation stage of policy making is highly contingent upon the institutional negotiation outcomes in the intergovernmental levels. Currently there is no clear structure that would be adequate enough to monitor, regulate and facilitate the implementation of the microcredit policies in the local levels. At this point there is a mismatch between the institutional capacities of the international governmental organizations on the one hand, the local needs of the clients and the services delivered by the NGOs on the other hand. Once the aforementioned conceptual choice of the network has been made, the implementation structures in the local levels will undergo a drastic transformation in terms of the type of targeting particular type of clientele as well as mechanisms of service delivery and monitoring employed by the policy cluster. An important precondition of successful microcredit enterprises is the closeness of the fit between service delivery methodology and the shape of the retail outlets (Rhyne and Rotblatt, 1997). This fit will be increased only after the policy makers and practitioners make choices in situating microcredit either in the set of poverty reduction strategies and/or financial markets.

Summarizing, let us point out that the implementation and monitoring structures of the microcredit policy network are contingent upon the management design of the microcredit network clusters, their service delivery methodology, number of clients targeted, the ratio between the outlet staff member and the clientele served and lending philosophy (development or commercial enterprise) of the microcredit NGO.

Partly due to the absence of regulatory mechanisms the compliance of the clientele is being achieved by ad-hoc mechanisms employed by the network clusters. The monitoring of the microlenders and small levels of delinquency rates has become possible due to the small ratio between retail outlet staff member and the local clientele. The relationships between the staff members and the clients are personalized, which is one of the factors that guarantees the return of the loan. Secondly, the group lending models interact constructively with the cultural features of the developing world, where in most of the cases the relationships between the community members are being regulated by the norms and values of the community. Hence, disappearing with the money hardly becomes the case, particularly when the lending is conducted through the solidarity group model. The compliance and regulation as a policy cycle are built in with the implementation mechanisms of the projects. The compliance within the projects also depends on the types of actors involved. In case if the local commercial actors are the ones providing the funding, the compliance becomes carried out through the joint efforts of the local banks and the microcredit institutions.

A comprehensive legal-institutional dimension of the compliance is still to emerge, which will contribute to the crystallization of the microcredit policy environment and will increase the credibility of the network as a whole. One of the major successes of commercialization within PRODEM/BancoSOI cluster are the banking reforms in Bolivia, that have eased the entry of commercial actors into the banking system. These reforms created the legal framework for BancoSol to operate as a commercial bank without requiring collateral from its clients. This was a huge step away from the traditional or “Western” banking that operate around the world. Interestingly, traditional Western-style banking systems that function in developing countries serve no more than 20% of the adult population. In Africa this indicator is only 5% (Aryeetey et al 1997 and Steel et al. 1997, cited in Berenbach, Churchill, Steel and Randhawa, 1998). By contrast, the banking system in the United States captures 95% of population (Meagher and Mwiinga, 1999). The huge gap between the local socio-economic, political and cultural contexts of the developing world and the economic reforms and models presented from the industrialized countries hinders the economic development and financial deepening of the developing world. Moreover, microcredit as a commercial enterprise, is an institutional innovation that taps into qualitatively new market and builds up new category of clientele. The acknowledgment of this fact should be reinforced by appropriate measures of legal reform that will be able to fill the void between the microcredit, a new financial product, and the traditional legal-political frameworks that operate in the developing world. Lastly, it will be essential to reform the implementation as well as compliance structures of the microcredit clusters.

III.5 Policy Phases and Institutional Learning

Within the microcredit policy cycle the institutional learning, which is the last policy cycles in the framework presented by Reinicke (1998), is an output of one policy phase as well as an input for the next phase. This section of the research argues that the microcredit policy network already has completed one policy phase and produced the first policy learning output, which subsequently channeled back to the network and served as an input for yet another phase of network performance. The institutional learning that has occurred in the first policy phase (Figure 1) has signaled the start up of the second phase (Figure 2), characterized with more diverse and rich content of public/private partnerships. The institutional learning first of all affected the structure of the network, which is the rationale for this section to delve into the

structural analysis of the network and transformation of its features and service delivery capacities.

Network Structure. The first phase has started out in late sixties and early seventies. The network start up was distinguished by concurrent initiatives in establishing microcredit programs in various parts of the world. Number of countries in Africa, Latin America and Asia were the first ones to engage in microcredit programs. While currently the network has been extended to include post-Communist world in Eastern Europe, at the beginning stages of network initiation Eastern Europe was shut down from the efforts of NGO community to replicate the programs. Due to the concurrent start up of the network, it has evolved to acquire multi-polar structure. Currently the network is composed of separate policy clusters, which makes the governance within the network highly decentralized. The structure of the separate clusters varied depending on the mode of initiation: individual or institutional. Clusters which have followed institutional route of the cluster start up were much more effective in their outreach and were able to expand their organizational structure across different countries. Hence, their geopolitical scope was much wider than those for the individual clusters. For example Pan-American Development Foundation and Pact are cases of institutional start up of the network. Opportunity International, Trickle Up, TechnoServe are examples of individual start up of the network. Despite different institutional power at the beginning of network start up, currently both groups demonstrate high efficiency in delivering financial services as well as technical support and capacity building.

The network is NGO driven, and the NGOs compose the nexus of each cluster. During the network initiation the NGOs were at the forefront of negotiation forums and they managed to make the network credible and legitimate at the local levels of policy delivery. 'It was critical to share success stories within the country, so more people could join', mentioned one of the interviewees. In this regard, the NGO-mass media partnership has been critical to air the operation of the cluster and mobilize more people around microfinance institution. Most of the NGOs pointed out that the projects in the local level has been growing through the 'word of mouth', which was also coupled with different types of workshops and training that this particular NGO was conducting. At the beginning the finance mobilization for the project has been extremely hard due to the novelty of microcredit idea. This factor pushed the NGOs to look for means of sustainability, which resulted into ideas of revolving funds (the revenue channels back to the credit lines), loan guarantees with the local commercial banks, pulling together member resources, etc.

Difficulties, Institutional Learning and Preconditions of the Second Policy Phase. One set of difficulties that the clusters had encountered was the bureaucratic environment of the national governments in the developing world, which was hindering the operation of the network. One of the respondents pointed out that in African countries the NGO had to break the existing institutional hurdles, which had become an important democratization instrument, that has been functioning from within the system. In most of the cases the NGOs had to operate in a political environment, which was not conducive to microcredit institutions and was complicating the formation of necessary social infrastructure supporting these projects. However, these separate clusters were carrying the “capsules” of transparent decision making and community building, which served as transformation channels for the regions where the NGOs had choose to land.

Also, poor infrastructure and lack of adequate roads and transportation limited the effectiveness of NGOs in addressing the poorest, which were partly concentrated in the rural regions. Transportation and administration costs had decreased the feasibility of the NGO to start up projects in remote areas, although some of the institutional clusters are concentrating specifically in agricultural development (ACDI/VOCA).

The aforementioned problem areas were not as significant as the limited funding opportunities, which the network responded by looking for partnerships with the local commercial banks, negotiations with the donor community and eventually moving towards attracting the western banking community and corporate world. However, in order to attract the private sector the clusters had to demonstrate that the programs are already up and running, which eventually increased the credibility and legitimacy of these microcredit institutions. To enhance their performance in the conditions of limited funds, the driving NGOs were performing in different capacities. They not only were looking for funds to cover the operational costs and provide financial services, but also were engaged in delivery of technical support, sometimes technology transfer from the North. In other words, there was no specialization among the microcredit NGO community and they were operating in a highly secluded manner. The financial instruments used between the donors and NGOs were not sophisticated and mainly were limited to grants, donations and matching gifts. Although at this phase the network was tripartite, the composition of the three pillars was not an effective one. In number of countries the national governments sometimes would either complicate and hinder the operation of the network, or would demonstrate complete apathy and indifference towards the project.

The negotiation and policy formulation cycle was limited mainly to the NGO, grass roots and few representatives from the donor community. Intragovernmental and intergovernmental negotiation forums were not established, which left the network to function outside of institutionalized policy domain of international society. The absence of that forum resulted in the fragmented and ad-hoc basis of negotiation between the actors involved, which translated into cumulative effects and contributed to the emergence of governmental and intergovernmental negotiation forums after the network has completed one round of policy cycles.

Due to the lack of specialization, these microcredit NGOs were engaged not only in the fundraising and general policy formulation, but also were critical in implementation stage. However, the subsequent organizational growth of these NGOs in terms of establishing superstructure and retail outlets (Rhyne and Rotblatt, 1997) shifted the implementation realm to the retail outlets, which allowed the superstructure to mobilize financial resources and engage in knowledge management with the rest of the microcredit community. Compliance mechanisms employed were quite simplistic with a heavy stress on the group monitoring. Lack of institutionalized regulation within the network is still problematic and a critical factor to delinquency instances that occur within the network.

Some of the aforementioned difficulties that the network has encountered, particularly the lack of funding, was responded by seeking partnerships with the local commercial banks. This partnership was made possible by using the IGO grants as a loan guarantee for the applicants.

Secondly, in the first policy phase the capital flow from private sector to the NGO was mainly unilateral, which after institutional learning transformed to be bilateral. The private sector increasingly started to use mutual trust funds and provide loans to the NGO community, which also was contributing to the public image of the private sector. One of the most vivid examples of bilateral cash flows between the civil society and the private sector is that of ACCION International and Calvert Group. Calvert Group has developed a host of socially-screened mutual funds as well as tax-free investment. Established in 1982, the Calvert Social Investment Fund provides mutual trust funds to ACCION International, which uses those funds in microcredit programs in Latin America. Currently Calvert has 200,000 investors and around \$6 million in assets under its management. (Calvert Group, 1999). In 1990 Calvert Social Investment Shareholders voted to invest 1% of funds to support

microcredit, low-income housing and microenterprise development in the US as well as overseas.

Another example of public-private partnership is the collaboration between Winrock International, which is a US based NGO assisting small farmers in West Africa, and Monsanto, a multinational life sciences company. In this partnership Monsanto provided weed control mechanisms, including Monsanto's weed control product Roundup. The success of the program contributed to the replication of the program in Indonesia and number of countries in West Africa (Sellwood, 1999).

Currently the network is characterized by increasing bilateral cash flows among the donor community, business sector and civil society, which drastically changes the financial mechanisms employed by the network. Mutual trust funds, revolving loans, loan guarantees, saving mobilization from clients and others, concessionary loans from foundations and multilateral banks are the most frequently used mechanisms to mobilize capital for the microcredit projects.

As a result of institutional learning the involvement of the private sector became much more extensive and broadened to include not only finance delivery to local levels through financial intermediary-NGOs, but also opening up branch offices in the developing world, that specialize strictly in microcredit. A case of CitiBank in Vietnam is the most recent example of that qualitatively new partnership. Another indicator of institutional learning within the network is the increased interest of international public actors in microcredit. It is expressed by formation of new deliberation forums within IGOs, adoption of resolutions and other legal frameworks that strengthen the political position of microcredit both as a developmental instrument and as a commercial enterprise. Next, the partnerships among the NGO clusters increased, which was a function of accelerating specialization and labor division within the network. Many grants allocated by the World Bank are being implemented through NGO partnerships, when the participating partners take over different aspects of the project in the same region. There is a significant amount of information sharing through various conferences, which are linkages maintained by specialized coalition building and policy advocacy NGOs. Certain category of NGOs emerged, which is engaged in political mobilization and advocacy issues concerning the role of microcredit in the international policy domain (Results, Microcredit Summit Secretariat, Inter-Action). This development allows the rest of the NGOs not to worry about political mobilization of the international actors, and direct their attention to the donors and local level service delivery. Another

indicator and trigger of network specialization is the increasing social, economic and political needs of the grass roots level. Nowadays, the microcredit institutions provide not only financial services, but also take over social policy functions, such as health care, education, nutrition, population control, local level capacity building such as Capital PLUS model designed by Pact, etc. Most importantly, the increased involvement of the private sector and pressures of sustainability eventuated in formation of two categories of clientele and two routes of microcredit delivery: developmental and commercial. This is a conceptual crisis that has resulted only after the network has transformed itself through cultivating local needs (increasing demand for credit and various social services), diversifying the funding sources and private sector contributions and reaching a critical mass in the local levels, which are by no means monolithic. These are outcomes of institutional learning, which not only create the conceptual crisis in the intergovernmental negotiating forum, but also serve as input for yet another phase of policy cycle within the network (Figure 3).

IV. SOCIO-POLITICAL BY-PRODUCTS OF THE ECONOMIC ENTERPRISE

Governance, as an essential function of the global public policy networks, is a political capacity. Hence, whether microcredit, which is mainly perceived as an economic construct, serves in a governance capacity or not, there is a need to address the socio-political by-products that the network delivers in a systemic or ad-hoc basis. Subsequently, the fabricating of the aforementioned by products can not be analyzed in a contextual vacuum. Who are the actor that yield certain types of socio-political by-products? Why those actors become important? What are the institutions that bring those actors in a position capable to impact policy designs and manufacture those policy outcomes? Is it only the institutions that matter or the interaction between the actors making those institutions sustainable?

These are broad questions that required an extensive research. Although this study does not aim to address those arguments, it does point out the importance of those contextual characteristics in translating the economic outcomes into socio-political by products.

This section of the study argues that the microcredit public policy network yields to two sets of by-products during the delivery of financial services: social and political. Some of the social outcomes include political empowerment of women⁶, creation of employment, delivery of social services (schooling opportunities, educating about nutrition, in certain cases delivery of health care), demobilizing soldiers in post-conflict regions. Some of the political by-products include impacting national governance structures, modeling transparency and horizontal patterns of decision making, creating symmetric interdependency linkages among the local groups and community building. So how these outcomes come about and become possible? How significant they are? These questions lead us back to a discussion of contextual bases of microcredit public policy networks.

⁶ At this point it is yet to be researched to what extent and through what avenues do the women become empowered, if at all. The case of Grameen Bank demonstrated the cultural constrains and difficulties to recruit women as field officers that would run the projects. However, women compose a significant portion of the clientele. On the one hand, it adds a new dimension to their identity by pushing them to formal production structures. On the another hand, it adds a new stress on the family structures of the developing world. Due to weakly developed social service sectors, women entrance into the workforce is not being counterbalanced with social service delivery (such as primary schools, kindergartens, nurseries, etc), which negatively impacts on the child raring processes.

The central feature of the institutional design of the network in the local levels is the decentralized policy formulation, negotiation and implementation structures. The more the network grows, the number of retail outlets and policy clusters increases. Moreover, since the main objectives of the network is to deliver small loans to the poor, the monitoring of those small loans requires frequent interactions with the clientele, which can be achieved only through flexible and dynamics governance structures. Apparently, big governance bodies lack that capacity of flexibility due to their organizational complexity. In this regard, the separate network clusters composed of superstructure and retail outlets is small and decentralized enough to cater to the numerous clients on a daily basis. This aspect is critical in understanding why in the second policy phase, the international governmental organizations and governmentally funded partnerships like CGAP do not make loans directly to the local levels. For example, the involvement of the United Nations in microcredit projects is carried out through regional UNDP offices, which bring the local businesses, civil servants and grass roots together, although the processes is coordinated by the Special Unit of Microfinance at the UNDP (Anonymous Interview, July 1999). Most of the interviews have indicated that any institutionalized linkages of direct interaction between these institutional giants and local level clientele is almost excluded, which subsequently prioritizes the role of financial intermediaries, i.e. microcredit NGOs. Another example of this form of partnership is the CGAP. CGAP makes grants to various non-governmental NGOs, which further translate those grants to small credits to the poor. Moreover, CGAP mainly targets those institutions that already proved to be sustained.

Schneider and Ingram (1997) point out that ‘institutions have values, norms and ways of operating that define an institutional culture’ (76). Decentralized institutional design of the microcredit policy networks has fostered personal relationships among the field officers and the clients, which along with certain values and norms built in these cultures facilitate the return of the borrowed funds. In other words, low delinquency rates in certain clusters is a function of not only good monitoring, but also sense of obligation fostered through institutional culture as well as local values and norms. Thus, the institutional culture as well as the local values are important elements of social capital in this setting (Putnam, 1993), that the practitioners and policy makers need to foster through program designs and other means of political management.

Another by-product of microcredit projects is the political effects of these projects on the decision making patterns in the local and national levels. Specifically, depending on the program design, separate clusters delve into political transformations of decision making by

modeling transparency and engaging in capacity building at the local levels. Pact, is distinguished with its workshops that promote critical thinking and questioning the authorities. By modeling transparent decision making within the clusters, the microcredit projects provide an avenue of political change of the system from inside out, from bottom up. The microcredit projects foster political values that favor the rule, the law, institutions rather than an authority or an individual will. This particular by-product can be maintained only through decentralized designs of microcredit institutions, because it is contingent on modeling of decision making to small groups. Therefore, decentralization again emerges as ‘an institutional capital’ for political change.

Next example of political change promoted by microcredit projects has to do with the bureaucratic regulations imposed by the national governments, which hindered the operation of the microcredit clusters in that particular country. The respondent pointed out that the NGO she represents had worked with the government to simplify the regulations, which is critical factor for having a conducive legal-political environment for the growth of microcredit projects.

The impact of microcredit projects in the post-conflict regions is an important one, which should be studied extensively to examine the potential of microcredit in mitigating post-conflict tensions in divided societies⁷. It should be noted that number of NGOs operate in post-conflict regions. The success of these projects is explained with the fact that the communities are coming out of the war with a stronger sense of community, which is critical for microcredit projects to thrive. Introduction of microcredit projects facilitates the community building and allows demobilization of soldiers into the civilian economies. In most of the cases the post-conflict economies are destructed by the war, and the labor market is not very large to absorb the ex-combatants.

The case of the Grameen Bank is revolutionary in terms of generating significant shifts in the local cultural values pertaining the role of the women in the society. The majority of the clientele of the Grameen Bank are women. After being involved in microcredit projects women started to generate income and were able to allocate the incoming funds more effectively so to address the welfare of the family as a whole. However, the case of Grameen Bank also pointed out that the cultural constrains are still significant, because despite the

⁷ At the same time, there is a possibility that microcredit projects in conflict regions will fail because of high degree of polarization in the communities.

possibilities, women are hesitant to work in the field offices and are not engaged in decision making positions within the Bank. The microcredit projects do benefit for empowerment of women, although it remains to be seen to what extent and what is the effect of that empowerment on the family structures. In this regard, women empowerment is a phenomenon, which is hard to measure or quantify. Change in women's conditions may not be visible today, but it may have a significant impact on later generations. Despite the disagreements around this issue it remains a fact, that microcredit creates alternative structures and support group for women population, which adds a new dimension to their identity. Women start to evolve in formalized social organizations, which creates forums of deliberations concerning the common problems they face at home. The case of Grameen Bank is one of the most successful ones in reshaping some of the local norms and values, which are not conducive to personal development of women and denies them their distinct places in the society⁸. Moreover, creation of alternative social organizations and forums of deliberations provided the opportunity and an intervention angle for the NGO staff members to educate women about health, nutrition, family violence, usage of protection to avoid unwanted pregnancy, which is a critical measure for population control. Grameen Bank (Bornstein, 1997) used those forums to carry out social policy functions in the local levels. Bornstein (1997) calls the Grameen Bank a political chameleon:

‘It has the ability to affirm beliefs that both conservatives and liberals hold dear. From the right, Grameen can be seen as an entrepreneurial institution that makes the case for less government,; from the left, it appears to be an enlightened social welfare program that argues for the value of government involvement’ (26).

The beauty of microcredit projects is the combination of social services with the economic structures. For instance, the information dissemination about birth control is conducted in the context of economic changes, which pushes the women to open for the new information coming from the West. Being a part of a microcredit projects, women resist unwanted pregnancy by all means. The information on birth control presented during the group meetings becomes very timely and finds its way to the culture much faster than in case of being presented in a workshop, which does not have any ways to connect to women's daily lives. Population control in developing world is on the agenda of international policy makers.

⁸ Bornstein (1997) notes that because of Grameen Bank the dowry was not practiced in many families, which for Bangladesh is a huge step away from the mainstream culture.

However, the Grameen Bank is quite effective in addressing that issue, because it provides an economic context conducive for the success of measures taken in that sphere. Put differently, the social policies and information concerning social issues offered through microcredit projects is presented in an empowering way, which, if done differently, may cause local resistance and guarding of previously practiced experiences. One could argue that this form of social policy delivery may be much more effective rather than conducting a workshop to teach the locals how to feed her child and what to do and what not to do. The later form of intervention is intrusive and triggers suspicion and revival of local norms and practice, which in certain instances are destructive for the basic human needs. Once again, the delivery of the same social policy service through microcredit projects not only presents the same information in a non-imposing way, but also creates the economic environment, where women find it natural and necessary to follow the practices introduced by the foreigners. To reiterate, decentralized institutional structure makes it possible to detect the local needs and design appropriate social services for the locals. Social policies implemented through governmental top-down methods do not offer the right intervention strategy to address these issues. Decentralized institutional design and institutional culture of these programs expressed through personal relationships between the loan officer and the applicant (an interview, NGO) builds trust and creates environment conducive to a change, to which the locals commit themselves.

Lastly, microcredit network drastically contributed to creating employment opportunity structures. Each year 38 million people in Asia, Africa and Latin America enter the labor force (Bornstein, 1997). It is questionable that the developing world would be capable to absorb that labor force into the wage employment. In this regard, microcredit enterprise fosters self-employment, and creates a new type of financial market, which eventually has the prospect to link with the banking sector.

Going back to the question posed earlier: is it the institutional structure of the microcredit network that yields to the socio-political outcomes described above? As the aforementioned analysis demonstrated, the institutional structure has a big impact on the service delivery in the local levels. However, institutional structure only is not in a position to yield to the results presented above. It is the interaction between the institutional structure of the microcredit policy network, the cluster/program policy designs and local values that fosters the socio-political outcomes of the network. Different clusters design the delivery of microcredit quite differently. Some are closed to the local levels than others. There are projects that enter into the region to carry out a small section of a big grant. Hence, they

operate in a level without going deep into the social concerns of the community. To assess the socio-political potential of a microcredit project the following factors should be considered:

- The level of decentralization
- Institutional culture
- Availability of retail outlets and the nature of linkages between retail outlets and the superstructure.

V. CONCLUSION

The diametrically different forces of integration and fragmentation highlight the complexity of global public policy space. Globalization, liberalization of economies (Rodrik, 1997) and decline of welfare states (Pierson, 1994; Esping-Andersen, 1996) necessitate local solutions to counterbalance mostly negative impacts that these forces eventuate in the marginalized communities. In this regard, mechanisms of political management, that are inclusive enough to capture the local levels into the governance processes and are responsive enough to the new societal needs of the grass roots in the rapidly changing economic conditions of globalization, are needed.

This research pointed out that microcredit policy networks have decentralized institutional structures, which offer intervention channels that fit the blue-print sketched above. The inclusiveness of the network is expressed by the participation structures offered by the network in the local levels. Moreover, the network extends the participation in the governance processes to the non-state actors and previously excluded strata, the poor, which is a political transformation of governance structure that needs to be highlighted. The network is responsive because of its proximity to the local levels, its abilities of institutional learning and channeling the local feedback back into the network. In the rapidly changing economic context of globalization and liberalization this factor is an asset for a policy makers striving to foster sustainable development.

In the changed economic context the socio-political impact of the network is particularly significant. As the previous section demonstrated the microcredit policy network is not only an economic enterprise, but also a socio-political one. The socio-political outcomes of the network discussed earlier pointed out the unexplored potential of this network to serve as a policy instrument that can be deployed to address the failures of globalization and liberalization in the local levels. Although in a sporadic manner, microcredit policy network does deliver socio-political policy outcomes through its systems of rules, norms and shared goals. These factors qualify the network to be considered in a governance capacity (Rosenau, 1992). However, the quality of that governance capacity can be refined only through efficient political management of the driving institutions of the network. To what extent is it possible to extract the full potential of the network in the delivery of social policies is a factor that depends on the political processes of network management. Provision of mechanisms that would enhance that impact is necessary measure of political management that may transform the network into a multifunctional governance structure.

The discussion of the policy cycles has pointed out that currently the possibilities of political management of the network are open, since the network has entered into the second phase and is characterized with high formalization and increasing institutionalization in the international levels. It is still remains to be seen how effective the dynamics of that process will be for the grass roots, considering the multiple routes that the network might take. Most importantly, the previously discussed conceptual crisis and the stand of the international policy making community are critical in shaping the future transformations of the institutional structure of the network as well as the dynamics of its political management.

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