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Handbook of Development Policy Studies, Stuart Nagel, Gideon M. Mudacumura and M. Shamshul Haque (eds), Marcel Dekker, New York (2003) 371-391.

Transforming a Large-Scale Microfinance Institution :

Strategies and Challenges in a Government-to-Nonprofit Conversion in Bangladesh

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Prepared as a chapter for inclusion in

Stuart Nagel, Gideon M. Mudacumura and M. Shamshul Haque (eds),

Handbook of Development Policy Studies, Marcel Dekker,

New York, forthcoming, 2003

July 2002

Abbreviations

ADB	Asian Development Bank
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BSS	Men's Societies
CGAP	Consultative Group to Assist the Poorest (IBRD)
CIDA	Canadian International Development Agency
CRT	Canadian Resource Team
DAC	Development Assistance Committee (OECD)
FO	Field Organizer
GDP	Gross Domestic Product
GE	Gender Equality
GOB	Government of Bangladesh
HRD	Human Resource Development
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank)
IGA	Income Generating Activity
LFA	Logical Framework Analysis (Logframe)
MBSS	Women's Societies
MD	Management Director
MFI	Microfinance Institution
MP	Member of Parliament
NBD	Nation Building Departments
NGO	Non-Governmental Organization
ODA	Official Development Assistance
ODA	Overseas Development Administration (UK)
OECD	Organization for Economic Cooperation and Development
PDBF	Palli Daridro Bimochon Foundation (Rural Poverty Alleviation Foundation)
PRSP	Poverty Reduction Strategy Paper
RBIP	Rural Bittaheen Institution Project (CIDA)
RD-2	Rural Development Project - 2 (BRDB)
RD-12	Rural Development Project - 12 (BRDB)
RLF	Revolving Loan Fund
SWAp	Sector Wide Approach
TRT	Training Resource Team
UNDP	United Nations Development Program
UP	Union Parishad

Acknowledgements

The authors would like to thank the following individuals for their advice and assistance over the years on the project analyzed here. Mike Adair, Brodie Anderson, Nick Adams-Aston, Jeff Ashe, Ferdousi Begum, Arabinda Deb Roy, H.I. Haleem, Jim Halliday, Kazi Reazul Hoque, Mufazzel Hossam, Hasnat Hye, Yusuf Kassam, Rokeya Khatun, Huguette Labrosse, Joanna Ledgerwood, Evelyn Lee, Rudi Matienzo, Ralph McKim, Abdul Momin, John Moore, Kamal Mustafa, Dale Posgate, Ayub Quadri, Daudur Rahman, Brian Rowe, S.A. Salik, A.Q. Siddique, Kevin Smith, David Spring, Bob Woodhouse, Doris Wong. We wish to pay special tribute to two project leaders whose efforts were essential to the success of the project: Shahid Talukder and Russell Pepe, who changed others, changed themselves, and endured.

Introduction

Development projects are— or, rather, *should be*—policy experiments. From experimentation and piloting, through to replication and dissemination, projects can serve as tools to explore, test, refine and monitor the implementation of policies (Brinkerhoff and Crosby, 2002; Chambers, 1997; Rondinelli, 1993). However, there is a tendency in some quarters in current development discourse to undervalue projects as being too micro-level in their activities to be capable of achieving significant results. This is a misconception. In fact, it is precisely the ability of projects to generate interactions and synergies "up and down" all levels of intervention—macro (policy), meso (institutional) and micro (community, enterprise, household and individual)—that defines their potential to serve as effective policy experiments (Jackson, 2000).

This chapter examines the strategies and challenges of a decade-long process of transforming a government microfinance program to a stand-alone, nonprofit foundation. Involving hundreds of thousands of borrowers, thousands of field staff and hundreds of millions of dollars in loan funds, this project was undertaken on a very large scale. As such, we believe this case study offers useful insights, for both scholars and practitioners, into the role of government in national-level poverty reduction, microfinance-institution effectiveness and sustainability, and institutional change and capacity-building.

Why a New Microfinance Institution for Bangladesh?

"We have to increase the purchasing capacity of the rural population," said the then Prime Minister of Bangladesh, Sheikh Hasina, as she launched the new Palli Daridro Bimochon Foundation (PDBF) – the Rural Poverty Alleviation Foundation – on July 9, 2000. Established by an Act of Parliament, and with the financial support of the Canadian International Development Agency (CIDA), the Foundation was designed as an autonomous, self-supporting microcredit institution dedicated to the alleviation of rural poverty and the socio-economic advancement of the poor (Bangladesh Observer, 2000).

Why, in Bangladesh of all places, was there a need to create such an institution? After all, is Bangladesh not the home of the Grameen Bank, Bangladesh Rural Advancement Committee and Proshika—three major NGOs that run some of the largest microfinance programs anywhere in the world? The fact is, though, that the combined reach of *all* NGO microfinance programs in Bangladesh has been capable, at the optimum, of serving the credit needs of no more than 10 to 20% of the nearly 50 million rural Bangladeshis living in extreme deprivation (ADB, 1999). Government, therefore, *must* play a role. The PDB Foundation is the country's largest government-sponsored microcredit program, serving one third of the districts of Bangladesh.

The Significance of the Model

The PDB Foundation has much in common with other Bangladeshi MFIs. Its lead product is very small loans to rural, landless citizens, using solidarity- or peer-groups to promote high repayment rates. PDBF aims to expand the size of its loan portfolio in order to cover an increasingly larger proportion of its credit operations through interest-related revenue. The Foundation also mobilizes savings of the poor to lever even more lending to its clients. At the same time, PDBF provides income-generation, leadership and social-development training to its beneficiaries, who are mostly women; these services are subsidized by external grants. Thus, in these and other respects, the PDB Foundation resembles many other MFIs.

Where the Foundation departs from most MFIs is in the role it has configured for government. To a very considerable degree, this model draws on the Canadian experience with many incorporated “crown” corporations, arm’s length research foundations, and quasi-non-governmental organizations. In these cases, government plays a sponsoring role, and a role in governance, but does not become directly involved in program management and delivery. Government is kept at “arm’s length”, but, it *is*, nonetheless, actively engaged.

In essence, the PDBF model strikes a “middle way” for government to play a role in poverty reduction generally and microfinance in particular. Situated between the polarities of direct government delivery of services, on the one hand, and pure regulation, on the other, this model offers a different kind of role for the state. In terms of the governance, the Government of Bangladesh is represented on Foundation’s Board of Governors, which also includes representation from the private and NGO sectors as well as from the borrowing clients served by the institution. In terms of operations, the Foundation’s credit strategy, together with its personnel policies, are geared toward achieving maximum staff productivity, rapid portfolio growth, high loan-repayment rate, and, ultimately, financial sustainability. Overall, the Foundation operates *at arm’s length from government*, but engages government as an active stakeholder with other social actors; in this model, the state is neither dominant, nor marginalized.

Within the framework of the United Nations’ Millenium Development Goals, the international development community is aiming, between 1990 and 2015, to halve the proportion of people whose income is less than one dollar a day, and also to halve the proportion of people who suffer from hunger (UNDP, 2001a). Effective and efficient strategies are required to attain these obviously complex and expensive tasks. Put simply, current development discourse offers two different visions of what governments can do. In one approach, government is urged to play a direct, “hands-on” role in implementing program-level approaches, such as poverty reduction strategy papers (PRSPs) and sector-wide approaches (SWAps) (see, for example, CIDA, 2001; OECD, 2000). In much microfinance discourse, however, NGOs are viewed as the most desirable implementing agencies, while government is urged to play a purely regulatory role (eg. Ledgerwood, 1999; Microcredit Summit, 1999). In contrast, the PDBF model suggests that there is a "third-way," a "blended" model, where government works actively with other stakeholders, but is not responsible for day-to-day operations.

Country Context

Through the 1990s, Bangladesh struggled to reduce the worst effects of widespread poverty among its people. The decade saw the population of the country increase from about 120 million in 1992 to 135 million in 1999. But GDP per capita rose only modestly, from about $1,120 to nearly $1,500, during the same period. Consequently, the country remained very low on the list of low-human development countries, ranking 146 out of 173 countries on the human development index in 1992 and 132 out of 162 countries in 1999, thus roughly maintaining the same position relative to the rest of the world (UNDP, 1994; 2001b).

To be sure, some indicators improved markedly. Average life expectancy in the country continued its upward trend, begun in the 1980s, rising from 52 in 1992 to 58 in 1999. And infant mortality per 1,000 live births was almost cut in half, from 109 to 58, during that period. Furthermore, the adult literacy level increased significantly, from 37% to 59%, in the 1990s. Nonetheless, by 1999, the Government reported that fully 30% of the population (some 40 million people) lived on less than $1 per day, and about 36% (about 48 million), was living below national-defined poverty line (UNDP, 1994; 2001b; ADB, 2000).

Of course, socio-economic data tell only part of the story. The 1990s in Bangladesh were also characterized by growing political instability and reduced governability. Partisan political strikes, election violence, and scandal-heated political discourse, together with deep-seated corruption and patronage systems, all contributed to legislative grid-lock as well as policy uncertainty for donors and business. While governing politicians and bureaucrats sought to effect public-sector reforms for greater effectiveness and transparency, they were rarely able to deliver on their commitments.

One bright spot in this otherwise sobering picture, however, was the impressive work of Bangladesh's microfinance institutions (MFIs). Mostly non-governmental organizations (NGOs), these MFIs provided between five and nine million assetless individuals, the majority women, with access to very small loans for off-farm and on-farm income-generating activities (ADB, 1999). In fact, in the 1990s, Bangladeshi MFIs lent more to the rural poor than the entire formal financial sector (ADB, 1999). Led by the Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC) – with two million and one million members, respectively – these programs generally employed peer-group lending methods, often (but not always) supported by ancillary training, to compensate for borrowers' lack of collateral and to maintain high repayment rates. Among Bangladeshi MFIs, the Rural Development Project – 12 (RD-12), of the parastatal Bangladesh Rural Development Board, was the largest government-run microcredit program (see Hye, 1996; Khandker, 1999). RD-12 was later to become the Palli Daridro Bimochon Foundation.

The Origins of the PDB Foundation

The origins of the PDB Foundation can actually be traced back nearly 40 years. In the 1960s, the Bangladesh Academy for Rural Development designed what came to be known as the Comilla model of two-tiered rural cooperatives. The model called for the organization of village-level (or primary) cooperative societies to enable farmers to mobilize and distribute inputs (seeds, fertilizers, pesticides, credit). In turn, clusters of village societies were federated into thana- (sub-district) level cooperative societies in order to gain economies-of-scale efficiencies. In 1971, the government of newly independent Bangladesh adopted the Comilla model as its national development strategy, which was implemented through the Integrated Rural Development Program. However, the model was soon criticized for not targeting the landless. Efforts to incorporate the poor into existing societies were unsatisfying and slow. Consequently, in 1978, a separate program – Rural Development-1 – was started, expressly to organize new societies exclusively for the landless; this program was completed in 1983 (Hye, 1996; Khandker, 1999).

In 1982, a new government parastatal, the Bangladesh Rural Development Board (BRDB), was created to manage a wide range of donor-financed, credit-oriented projects focused on rural men and women who owned less than an acre of land. Operating under the Ministry of Local Government, Rural Development and Cooperatives (MLGRDC), BRDB worked through the two-tiered cooperative system, but provided credit, rather than other agricultural inputs, as its main service (Hye, 1996; Khandker, 1999).

Services for the cooperatives of the landless came to be known as the Rural Poor Program, which was funded by CIDA. From 1984 to 1988, CIDA supported a follow-on phase of this project, known as RD-1, which promoted the organizing of separate cooperatives for landless men and landless women. RD-2 established 5,600 bittaheen cooperative societies, as they were known, more than one third of which were expressly for landless women (*Ideas and Actions*, 1991).

In 1988, a larger and more ambitious collaboration between CIDA and BRDB began. The Rural Development – 12 Project (RD-12) was an eight-year initiative that aimed "to assist assetless rural men and women by providing them with skills, training and credit necessary for income generation, and to strengthen the capacity of BRDB to plan, implement and sustain development among the rural poor" (*Ideas and Actions*, 1991:2). Hiring a Canadian executing agency (CEA) to provide technical assistance to BRDB, CIDA committed C$ 15 million to the project, which worked, in 139 thanas (or upazillas), in six greater districts, covering one-third of the country. RD-12 emphasized the mobilization of solidarity groups for lending, more flexible and rapid credit arrangements, and more focused training for beneficiaries and project staff (*Ideas and Actions*, 1991).

Chronology of the PDB Foundation Project

1984	-	Rural Development Project 2 (RD-2) implemented by BRDB, supported by IDA, UNDP, ODA and CIDA.
	-	Canadian-funded Resource Team advises BRDB.
1988	-	Rural Development Project 12 (RD-12) approved by GOB, and supported by CIDA.
1991	-	Canadian executing agency (CEA) begins work as advisor to BRDB.
	-	Gender and social development strategy prepared for RD-12.
1992	-	Internal evaluation of training component carried out by Y. Kassam and M. Kamal.
1996	-	RD-12 closes.
1997	-	Rural Bittaheen Institution Project (RBIP) starts, with support from CIDA, to transform RD-12 assets to an autonomous, self-financing institution.
1999	-	PDBF Act passed by Parliament of Bangladesh.
	-	RBIP project closes.
2000	-	PDBF officially launched by Prime Minister of Bangladesh.
	-	Assets transferred from RD-12 / BRDB to Foundation.
2001	-	First full year of operations of Foundation.
	-	Senior management team in place.
	-	New employee service rules and compensation scale introduced.
2002	-	Evaluation of PDBF performance.

Scaling Up: RD-12 Achievements

The major achievements of RD-12 related to its success in scaling up its operations.

Coverage. By late 1996, at the village level, the project had organized some 12,000 bittaheen women's societies and 4,600 bittaheen men's societies, whose combined membership was approximately 450,000. Of these members, about 330,000 received loans. And *80% of all RD-12 borrowers were landless women*. Moreover, by late 1996, the project had mobilized over Taka 200 million in savings deposits from society members, enabling the lending of much more credit than that which could be financed solely by the CIDA grant (E.T. Jackson and Associates Ltd., 1997).

Training. RD-12 invested heavily in training at all levels. Between 1988 and 1992, for example, some 60,000 beneficiaries (49% of whom were women) received over 570,000 person days of training in leadership, income-generation and social-development. Nearly 2,000 field functionaries (41% of whom were female) participated in 45,000 person days of training. The unit cost of training per person was C$ 48 for beneficiaries and about C$ 190 for field staff (Kassam and Kamal, 1992; Kassam, 1998).

Gender Equality. As indicated by the data on training access, the RD-12 project took a decisive shift toward women's participation in its latter years. For example, of about 44,000 assetless members receiving skills training for income generation between 1992 and 1994, some 32,000, or fully 80%, were women (Lily 1994a). But that indicator was only one of many demonstrating that RD-12's gender-equality efforts were making gains. By 1994, 44% of all Field Officers and about 40% of Thana-level officers were women (Lily, 1994b), percentages which compared favourably with other MFIs in Bangladesh.

Reaching the Limits of Government Operations

While these and other indicators of achievement were indeed impressive, the limits of the model of a government-owned and -operated microfinance program were reached by the end of RD-12.

Underperforming TBCCAs. At the thana level, RD-12 loan repayment rates were suffering in underperforming thanas. The legal rigidities of cooperative regulations, inadequate management capacity, together with local corruption and patronage, combined to bring down the performance of a sub-set of thana societies.

Overdue Loans. Throughout the 1990s, RD-12 worked hard to monitor and improve loan repayment rates, making frequent field visits by head office staff, backstopping field staff collection activities, and publishing district and thana level comparative data on loan repayment performance. In the early 1990s, the repayment rate ranged, in aggregate, from 88% to 91%, but it was a constant struggle to maintain these levels (Matienzo, 1991; Sardar, 1993; Deb Roy, 1995).

Interest Rate. For most of the duration of RD-12, the project's interest rate charged to borrowers remained significantly below that of its major counterparts. RD-12's rate stood at 16% (declining balance), while Grameen and BRAC's were both set at 20% (flat rate) (Khandker, 1999). Each time CIDA and other stakeholders pressed for BRDB to raise the interest rate, in the interest of financial sustainability, the Board delayed and deferred; its ability to resist political pressure simply proved to be too weak.

Human Resources. The Board also found it difficult, in the Bangladeshi tradition, to fire underperforming or corrupt staff, especially senior-level ones. In a number of cases, when Canada pushed for this to happen, and were told it had been done, it later became evident that underperforming personnel had merely been transferred elsewhere.

Sustainability. Taken together, all of these factors – underperforming TBCCAs, underperformance in loan repayments, a low interest rate, and rigid and counterproductive human resources practices – meant that there was no way that institutional sustainability could be achieved under the BRDB model. What was needed, CIDA, the CEA and some GOB officials believed, was a *new* model that involved a performance-driven, autonomous institution operating at arm's length from government. The new institution needed to be business-oriented and guided by the disciplines inherent in financial sustainability.

Comparing RD-12 to Other Major MFIs: Performance and Under-Performance

In the mid-1990s, the World Bank carried out a landmark comparative study of the performance of Bangladesh's three largest microcredit programs: RD-12, the Grameen Bank, and BRAC. Published widely (Rahman and Khandker, 2000; Khandker, 1999; Khandker, 1998), this research confirmed that RD-12 was performing as a world-class MFI in terms of scale, reach and poverty impacts. But the study also illuminated certain areas of underperformance that were limiting RD-12's ability to move faster toward institutional sustainability.

Socioeconomic Impacts. Drawing on survey data for about 1,800 households across Bangladesh, the World Bank study found, in terms of targeting, that 58% of RD-12 participants owned no more than half an acre of land, compared to 55% for Grameen and 65% for BRAC. It was also found that every Taka 100 increase in credit to women participants produced increases in the non-land assets of women borrowers by Taka 29 in RD-12, compared with Taka 15 in BRAC and Taka 27 in Grameen. Household production of program participants increased by 48% for RD-12, 56% for Grameen and 57% for BRAC. Notably, in RD-12, the research showed that 6% of households rose above the poverty line each year, compared to 5% and 3%, respectively, for Grameen and BRAC. "Poverty reduction was thus highest for RD-12," concluded the study (Khandker, 1999: 56). And, at the village level, moderate poverty was reduced by 14% in RD-12 villages, 12% in Grameen villages, and 10% in BRAC villages ((Khandker, 1999). In general, then, RD-12 performed at a similar, and sometimes higher, level than these two better-known MFIs, on participant-, household- and village-level indicators of effectiveness.

Institutional Sustainability. At the same time, however, the Bank's findings also pointed to some important weaknesses in RD-12's performance, especially in relation to institutional sustainability. On the positive side, all three MFIs were able to double their membership in the early 1990s, almost entirely among women, and, on average, increased their annual loan disbursement by a factor of five. Both RD-12 and BRAC doubled their staff size to accommodate this growth, though, in contrast, Grameen's staff complement remained the same.

However, RD-12 was found to underperform on two indicators that are crucial to institutional sustainability. First, in RD-12, member savings constituted about three-quarters of the value of loans outstanding, whereas the ratio for the other two MFIs ranged between one-quarter and one-third. In other words, comparatively speaking, RD-12 was not leveraging borrower savings to the maximum extent. Second, and perhaps most tellingly, in 1994, RD-12 reported annual loan-disbursements per staffperson of Taka 277, compared with Taka 1,418 for Grameen and Taka 638 for BRAC. Further, 1994 member savings per staffperson were Taka 83 for RD-12, Taka 259 for Grameen and Taka 136 for BRAC (Khandker, 1999). Viewed alongside an interest rate that continued to be considerably lower than that of its counterpart MFIs, and the organizational rigidities and patronage systems associated with the public-sector in Bangladesh, these findings underscored the limits of the government-run model.

Transiting to a New Model: The Rural Bittaheen Institution Project

In 1997, CIDA and the Government of Bangladesh started a new joint initiative: the Rural Bittaheen Institution Project (RBIP). A direct response to the limitations faced in the previous project, RBIP had three ambitious objectives:

1) to transform RD-12 into an autonomous, self-financing institution;
2) to establish the foundation for financial self-reliance; and
3) to strengthen and modify current RD-12 (RBIP) operations and services in 139 thanas.

The project was divided into two parts: a three-year (1997-1999) transition phase, and a two-year (2000-2002) start-up phase for the new institution.

Business Plan. After much work and several revisions, a Business Plan for RBIP covering the period 1996 through 1999 was approved by the governments of Bangladesh and Canada. The goal of the plan was "to create a new autonomous (self-governing) institution which will conduct a sustainable program for poverty alleviation" in order to "enhance the economic and social well-being of the Bittaheen (rural assetless poor)." The two primary management roles of the three year project were, first, to strengthen project operations and build the basis for financial self-reliance, and, second, "to perform the tasks necessary to ensure transformation of the project to a new institution" (GOB/GOC, 1997: i-ii).

The Business Plan detailed measures to create the governance structure of the new entity, draft enabling legislation, transfer all RD-12 assets (revolving loan fund, loan portfolio, personnel, equipment) to the new institution, delink employee terms of service from government regulations, streamline operations, promote a culture of efficiency and customer service, design new credit products, strengthen internal audit and accountability procedures, organize informal primary groups rather than registered cooperatives, and enhance the supervision of thana-level societies.

By early 1999, a new Business Plan had been prepared for the soon-to-be launched Palli Daridro Bimochon Foundation (Foundation for the Elimination of Rural Poverty). Underpinned by the same principles and strategies as the 1997 Business Plan, the new plan based its projections on RD-12's final balance sheet and detailed list of assets, as well as a number of operational innovations, especially in credit and finance, instituted during the transition phase (E.T. Jackson and Associates Ltd., 1999). The plan also provided new projections for a six- to eight-year period for the new Foundation to achieve operational sustainability.

Legislation. After extensive research and consultation, stakeholders chose a foundation model as the legal structure for the new institution. Draft articles and by-laws for the new Foundation, prepared by a consultant viewed as credible by the GOB, were approved in principle by the Prime Minister's Office and Cabinet in late 1998. But it was not until a full year later – after intensive lobbying by Canada and Bangladeshi advocates – that Cabinet and Parliament officially approved the Foundation's enabling legislation. This approval was finally achieved largely because of CIDA's threat to withdraw its support of the project altogether unless the PDBF Act was passed, as well as the unwillingness of the GOB to assume the operating costs of the project.

Governance. The RBIP project also saw the design and implementation of a structure of governance for the new Foundation. Transiting from the Project Steering Committee of the RD-12 Project, a new Steering Committee was formed, which later became the first Board of Governors of the Foundation. While the Foundation is autonomous, its Board is chaired by the Secretary of MLGRDC, with the Director-General of BRDB as vice-chair; a senior official of the Ministry of Finance is the third government representative. At the same time, the Board also includes three representatives of the private sector and four representatives from the Foundation's client group, Bittaheen women and men.

Internal Audit. During the RBIP project, the Canadian technical-assistance team placed emphasis on building substantial internal audit capacity that was later to be transferred to the new institution. (RD-12 had not incorporated an internal audit function.) The CEA designed, staffed and supervised a unit of six junior auditors that was transferred, at start-up, to the new institution. The unit began conducting field audits in late 1997 and continued to do so until the new Foundation was launched.

Accounting and Financial Systems. Another outcome of RBIP was a totally renovated accounting and financial system characterized, in 1999, by a shift to: a standardized double-entry accrual system; a centralized review and control system for a consolidated balance sheet and profit and loss statement for thana cooperatives; centralized budgetary control procedures; a continually improving project balance sheet; and conversion to computerized record-keeping and reporting at the central and thana levels.

Protection of the Revolving Loan Find. Through a range of innovative and activist measures, the CEA worked with field staff to protect the revolving loan fund in the face of many challenges (see below). Consequently, the RBIP project was able to transfer to the Foundation a loan portfolio valued, after loan-loss provisions, at approximately C$ 13 million, as well as C$ 9.4 million in cash, and client savings of about C$ 12 million (PDBF/CRT, 2002).

Gender Policy. Like earlier projects, women's participation was strong in RBIP at the micro-level, where 72% of members and 82% of borrowers were women, and at the meso-level, where 40% of field staff were women (E.T. Jackson and Associates Ltd., 1999). However, this phase also saw a concerted effort to establish a gender *policy* for the new institution, at every level and in all of its activities. The goal of the policy, developed in 1997, was: "Poverty reduction through equal participation of women and men in all spheres of activities of the institution and thereby more towards equal partnership" (RBIP, 1997:3). To be reviewed by senior management semi-annually, the policy called for specific actions in every area of the new institution, including management, human resources, social development, group mobilization, financial management, credit and savings, and monitoring and evaluation. RBIP was the first government-run project to have developed such a policy and, as such, was seen a best-practice innovation. However, it was also recognized that the policy "provides only leverage: in itself, it does not transform the institution, but it at least sets out the rules of the game" (Rowe, 1997:7). By 1999, some 250 senior staff of RBIP had received orientation training on Gender Policy.

Social Outcomes. As in RD-12, RBIP continued to engage local society members in an array of social-development training and awareness activities—often linking with other agencies that would actually deliver these services—on an array of issues, including adult literacy, family planning, public health, primary education for girls and boys, and others. A 1998 study of more than 200 beneficiaries in six regions confirmed what earlier internal analyses of RD-12 had indicated: that the program was contributing to significant social outcomes as well as economic ones. For example, the RBIP research found that: two-thirds of beneficiaries practiced family planning (as compared to the national average of just under 50%); two-thirds of RBIP families used sanitary latrines (versus the national average of 45%); and two-thirds of participants reported that the school-attendance rate of their children was between 90 and 100%. Overall, one-quarter of respondents said that they highly valued the increased dignity and status, as well as increased mobility and social interaction, that participating in RBIP conferred upon them. The study concluded that the social and economic development of landless citizens, especially women, represent an interactive and mutually reinforcing process (Sultan, 1998).

Challenges in RBIP

Floods. In 1998, widespread flooding brought suffering to more than 30 million people across Bangladesh. An estimated 135,000 RBIP members were affected, directly or indirectly. Like other MFIs in Bangladesh, RBIP devised a short-term relief plan for affected members, though one that sought to reinforce, rather than erode, credit discipline. The effects of the flooding tended to increase arrears for the next 18 months. However, by late 1999, demand for new loans had returned to pre-flood levels.

Loan Arrears and Delinquency. While the loan portfolio of RBIP grew in the late 1990s, reaching about Taka 670 million in 1999, so did the volume of loans in arrears, which stood at Taka 132 million in early 1999, representing about 20% of the overall portfolio. One of the factors associated with this trend was the uncertainty surrounding the future of the project. Legislation for the new institution had been delayed, and former RD-12 personnel were operating with little or no job security. In the absence of BRDB leadership, the CEA team played a very active role in visiting field staff to encourage increased supervision of borrowers. An incentive-driven collection system for field staff was also instituted. All of these measures kept the arrears portfolio from getting worse, but were not sufficient to reduce it significantly.

Senior Management. The RBIP period was also characterized by an almost complete lack of senior-management presence or commitment on the part of BRDB. After all, the Board was about to lose responsibility for a program it had built up to an impressive scale. In fact, some middle- and senior BRDB managers actively *opposed* the transfer of the project to the new institution, delaying the Foundation's start-up. This vacuum in day-to-day senior management was filled by the technical-assistance team, primarily to protect the revolving loan fund that had been financed by CIDA, GOB and member savings. The CEA and CIDA also were obliged to lobby the GOB heavily to counter internal opposition to the transition.

Field Staff. The morale of some 2,000 field staff of RD-12 suffered the most from the uncertainty over the project's future during the RBIP period. The CEA team worked hard to communicate to the field positive messages about the transition. Also at issue for some field personnel was the proposed delinking from government terms of service by the new institution. Further, the new, performance-oriented staff assessment procedures, to be used by the new institution, threatened non-performing field staff. More pointedly, by 1999, the CEA had identified 400 underperforming RD-12 field staff who, it proposed, should be released. Though preliminary and supposedly confidential, informal news of this proposal strengthened the resolve of the opponents of the transition.

Managing Change. One of the "meta-lessons" of the RBIP period was that stakeholder politics are just as important, or perhaps more important, in large-scale institutional transformations than the technical work needed to renovate policies and systems. Change agents must manage both the political and the technical dimensions at the same time. And they must manage ongoing relations with both proponents and opponents, up and down (and across) the project structure. All of this takes people and money – and staying power. In order to achieve enduring change, change, it turns out, must be endured.

Gender Policy. While RBIP's new Gender Policy (GE) was indeed an important achievement, it also became evident during this phase that inertia and resistance were limiting progress in implementing this policy. Among the factors contributing to these limitations were lack of leadership by both Canadian and Bangladeshi stakeholders in advancing gender issues at the broader strategic level; steady internal criticism directed at project advocates of gender equality; and the subordination of GE to other, primarily financial priorities in the overall organizational transformation process. Consequently, the Gender Policy remained largely unimplemented at the completion of RBIP and through start-up of the Foundation.

The Gender Dynamics of Loan Ownership and Utilization. An internal RBIP study sought to understand the gender dynamics of loan ownership and utilization, issues which are receiving increased attention in microfinance worldwide. While only 7% of women (and only two percent of men) reported that they felt their spouse controlled the loan, two-thirds of women said that the use of the loan was a joint decision made with their spouse. In assessing the *utilization* of credit provided to women, the study found that, in practice, less than 40% of women actually controlled the use of their loans. In one-third of loans to women, the husband or son controlled their utilization. Notwithstanding this, it was also found that 54% of both women and men felt that their spousal relationship had improved during their participation in the program (Sultan, 1998). These complex findings parallel the experience of other Bangladeshi MFIs and deserve further study and action.

The New Foundation: Initial Gains

While the start-up process for the Foundation brought many challenges, by early 2002, the new institution was also able to point to a number of important gains in key areas:

Loan Disbursement. In both 2001 and 2002 (through April 2002), the Foundation lent more than Taka one billion to borrowing members. This quantum of lending was considerably larger than annual loan disbursement levels during the RBIP period. Thus, even in its start-up phase, the Foundation succeeded in growing the loan portfolio, in spite of other countervailing factors.

Client Savings. At the same time, the Foundation was able to slightly increase the size and proportion of client savings in the Revolving Loan Fund. Savings deposited by Foundation clients reached the C$ 12 million-mark by 2002. Again, given other negative factors internal and external to the project, this achievement was a notable one.

Staff Training. In addition, the Foundation was very active in training at all levels during its first two years of operation. In 2000-2001, the Foundation provided more than 1,100 days of management and operations training for operational staff and partners. The next year, more than 2,700 training days for Foundation staff were provided.

Client Training. As with previous projects, the Foundation invested heavily in client training. During its first two years of operation, the new institution organized 2,000 person days for training of more than 400 paratechnicians, some 31,000 training days in branch-level income-generating activities (IGAs) for society members, and more than 45,000 training days for members in society-level IGAs. In the areas of gender and social development, over the same period, the Foundation provided 42,000 person days of leadership training for solidarity group members, and more than 330,000 days of adult literacy training.

Foundation Growing Pains

Notwithstanding the important gains made during the initial start-up phase of the Foundation, there were significant problems to be confronted, as well.

Labour Disruptions. A combination of insecure field staff, disgruntled non-performing managers, and opportunistic union organizers, led to the periodic occupation, in late 2001 and early 2002, of a number of Foundation offices, and the intimidation of many staff. While most project stakeholders, on the Canadian and Bangladeshi sides alike, were not opposed to collective bargaining and unions in general, partisan, corrupt and non-performing staff had captured the union organizing drive and sought to "turn back the clock" to terms of service that, to say the least, would not be performance oriented. It is worth noting that most MFIs in Bangladesh, including Grameen and BRAC, are *not* unionized, for some of the same reasons. Consequently, the Foundation and its proponents fought the occupations and the union, a battle which continues.

Governance. Furthermore, some GOB representatives on the Board of Governors of the Foundation also sought to roll back the clock, trying to reassert the Government's control over the program. The rest of the Board, CIDA and Canadian consultants resolutely resisted this "rollback" effort. This battle, too, continues, though it is dissipating as time goes on.

Interest Rate. Up until mid 2002, the Foundation maintained the same low interest rate – 16% on a declining balance basis – that had held back the financial sustainability of the program in earlier phases. An external evaluation commissioned by CIDA was critical of this rate. In mid 2002, however, the Board of the Foundation voted to raise the interest rate to a level approaching that of the other major MFIs. As of this writing, the interest rate is 24% (declining), only slightly below the average current MFI rates in Bangladesh.

Product Mix. The CIDA evaluation was even more critical of the Foundation's failure to diversify its product mix. While the average loan size continued to rise compared to previous projects, the basic financial product offered to clients was the same in 2002 as it had been a decade earlier. However, the experience of MFIs in Bangladesh and elsewhere indicates that product (and client) diversification is a prerequisite for the financial sustainability of microcredit programs. Much work remains to be done on this issue by the Foundation.

The Long View: Aggregate Results

It is useful to view the results of the Foundation and its precursor projects from a long-term perspective. When the results of the RD-12, RBIP and PDBF projects are aggregated, it becomes evident that the stakeholders achieved some remarkable things together, as follows:

1) Almost C$ 230 million was lent, cumulatively, to landless Bangladeshi citizens, mostly women, from 1988 through early 2002 (see Table 1 below);
2) During the same period, more than C$ 12 million in client savings was mobilized for use, several times over, in the program's Revolving Loan Fund (RLF);
3) Between 1988 and 2002, the Government of Bangladesh contributed a total of nearly C$ 19 million (about C$ 14 million toward operating costs, and nearly C$ 5 million to the RLF);
4) For its part, CIDA provided C$ 41 million toward operating costs, and nearly C$ 15 million to the RLF, over the life of the three projects;
5) Table 2 shows that the three projects' clients provided about 38% of the cost of the Revolving Loan Fund, with CIDA contributing about 47% and the Government of Bangladesh 15%. Note, though, that the *combined value of both Bangladeshi stakeholders/groups – the Government and the clients – represented 53%, slightly more than half, of all RLF funding*;
6) As Table 3 indicates, from 1988 to 2002, the three projects provided more than 5.5 million person days of training to project beneficiaries (over 5.4 million days) and project staff (more than 100,000 days);

7) Two-thirds of project trainees were women, representing a major long-term investment in the human-resource capacity of landless women, in particular.

Of course, development interventions are much more than statistics. However, these numbers are testimony not only to the breadth, but also to the depth of the results generated by the three projects over some 14 years. The data also underscore the fact that, especially in terms of shared financial contributions, these interventions were driven by a practical, productive three-way partnership involving CIDA, the GOB and landless Bangladeshi citizens.

Table 1
Cumulative Loan Disbursements, 1988 - 2002

Fiscal Year		During the Year (Tk.)	Cumulative (Tk.)	Cumulative (CDN$)	Exchange Rate
1988-89	**RD-12**	19,778,490	19,778,490	659,283	30
1990-90		44,663,490	64,441,980	2,148,066	
1990-91		87,485,250	151,927,230	5,064,241	
1991-92		221,492,950	373,420,180	12,447,339	
1992-93		476,942,310	850,362,490	28,345,416	
1993-94		702,660,930	1,553,023,420	51,767,447	
1994-95		722,776,810	2,275,800,230	75,860,008	
1995-96		653,477,140	2,929,277,370	97,642,579	
1996-97	**RBIP**	643,040,620	3,572,317,990	111,634,937	31
1997-98		797,424,010	4,369,742,000	136,554,438	
1998-99		912,567,160	5,282,309,160	165,072,161	
1999-00		804,513,310	6,086,822,470	190,213,202	
2000-01	**Foundation**	1,016,727,190	7,103,549,660	200,099,990	35.5
2001 -02 (Up to April-02)		1,011,593,500	8,115,143,160	228,595,582	

Source: PDB Foundation / CRT, 2002

Table 2
Stakeholders' Contributions, 1988 – 2002 (C$ millions)

Stakeholders	Operating Costs	Revolving Loan Fund	Total
CIDA	41.34	14.68	56.02
GOB	13.91	4.95	18.86
Clients	–	12.29	12.29
Total	**55.25**	**31.92**	**87.17**

Sources: PDB Foundation/CRT, 2002

Table 3
Person Days of Training, 1988-2002

Categories	Person Days of Training	% of Women Trainees
Beneficiaries	5,409,177	67%
Staff	105,500	43%
Total	5,514,677	66%

Source: PDB Foundation/CRT, 2002

Strategies for Transformation : Implications for Practice

It was no accident that such impressive results were generated. A number of strategies were intentionally employed in support of the transformation process toward a more efficient, autonomous and sustainable microfinance institution. Yet, at the same time – almost dialectically – countervailing challenges to the change process played themselves through the evolution of the various projects, especially over the past five years, when the process directly confronted entrenched interests, both nationally and locally.

Strategies. Five major strategies were employed in this transformation effort. First, a significant investment was made, at all levels of the program, in training all key project players, from borrowers who received training in income generating techniques, to field officers on group mobilization, to headquarters staff on management information systems and human resources policies. Second, a sustained effort was made to integrate a gender equality perspective into all aspects of the program, through policies, credit targeting, training and tools. Third, new management methods were introduced to senior staff, with an emphasis on performance-based personnel policies; from a Bangladeshi perspective, this was perhaps the most countercultural and threatening of all the strategies used. Fourth, a significant push was made by the consulting team to strengthen the banking and credit capacity of the program, particularly with respect to arrears monitoring and the internal audit function. Finally, in order to create and sustain the momentum and legitimacy required for these changes, much effort was put into the education of, and relationship-building with, key government officials in order to ensure senior-level support.

Challenges. At the same time, an array of internal and external challenges constrained the transformation process. One challenge was Bangladesh's volatile natural environment, where episodic floods and hurricanes too often decimated the modest socio-economic gains made by villagers through credit and income activities. In parallel, an equally volatile political environment produced a steady flow of political strikes (known as *hartals*), standoffs and violence that frequently slowed the machinery of the state, and development agencies, to a crawl. Inside the network of project stakeholders, there also were marked challenges. Efforts to fire corrupt and ineffective staff too often met with resistance from their allies and the patronage networks they fed, as well as from Bangladeshi organizational traditions more generally. Furthermore, threatened by the performance-based focus of the new Foundation, some disaffected and non-performing personnel organized demonstrations that intimidated staff and slowed the start-up of the new institution. Finally, the efforts of certain senior-level government opponents of the change process intensified on many fronts, including through the government's role on Board of Governors of the Foundation, where these opponents worked hard to actually return the program to full government control and management practices.

Reflections on Practice. In applying these strategies and meeting these challenges, the consulting team (comprising two Canadians and seven Bangladeshi professionals), in particular, learned (and re-learned) key lessons about the organizational transformation process:

- *Resources:* Large amounts of time and money were required to implement the change process. A mix of advanced skills on the consulting team—especially in stakeholder management and credit and banking, but also in other areas—proved crucial.
- *Roles:* The consulting team found it had to play a variety of roles, from internal monitoring of program operations (its main role), to managing stakeholder politics, (especially in RBIP and Foundation start-up) to (briefly, only in RBIP) actual program management—depending on the needs of the particular phase in the change process. In managing both stakeholder and formal politics, the team learned that both foreign (for distance, and association with the donor) and local (for proximity, and textured understanding) players are necessary. In a broader sense, because of their longer tenure and more extensive knowledge of the project (compared to other, more transitory players) the consultants also became the stewards and the "corporate memory" of the longer term change process.
- *Rotation:* The institutional practices of both CIDA and the Government of Bangladesh resulted in a continuous rotation in and out of the project by representatives for each of these stakeholder groups. The consulting team devoted time to building relationships, briefing, educating and supporting each of these representatives, as well as enabling them to interact with each other as required.
- *Resolve:* On both the GOB and CIDA sides, the consulting team also found that it needed, at critical moments in time, to strengthen the resolve of key players to press for maximum change; this was part of the consultants' strategic-change role.
- *Reduced Focus:* Organizational transformation is fundamentally a continuous, multi-tasking process. Many policies, systems, programs and people must be changed at the same time. However, this was a very large-scale intervention. Early on, the team found that, within a given year or even project phase, only a few areas could be caused to undergo real, thoroughgoing change—and even that was difficult. The consultants thus worked with other stakeholders to focus on a few strategic priorities for major change at a time. In the latter stages of the change process for better or worse the consultants, CIDA and the GOB chose to emphasize banking, credit, and governance change and gave less priority to gender-policy and social-development change.

Overall, the consulting team experienced the organizational transformation process as demanding, time-consuming, complex, unpredictable, at once political and technical, partial, contradictory and uneven—as did other stakeholders. There were both proponents and opponents of change, inside and outside the project structures. And, for every gain or success, there was an equal or greater number of losses or failures. This kind of large-scale organizational transformation is, to put it mildly, very hard work.

Development Policy Implications

The case study examined here helps to shed light on a number of development-policy issues that are currently the subject of debate and experimentation among scholars, donor officials, policy-makers, NGO personnel and consultants, as follows:

1) ***The appropriate role for the state in the microfinance sector.*** Governments still operate in large swathes of the micro-lending market in developing countries. There are some notable examples of high-performing public-sector MFIs, such as Bank Rakyat Indonesia, and Badan Kredit Kecamatan (also in Indonesia) (Ashe and Wilson, 1996), which have restructured their operations from supply-driven credit systems to demand-oriented, profit-sensitive, full-service banking operations. However, apart from these individual cases, the bulk of international experience suggests that governments are ill-suited to directly manage efficient, high-growth and sustainable microfinance programs. In particular, states are vulnerable to the negative influences of corruption, patronage and bureaucratic rigidities and delays. In the field of microfinance at large, dominated as it is by NGOs, there is a strong bias against any active role for government other than a regulatory one (Ledgerwood, 1999; Microcredit Summit, 1999). However, the case examined here offers evidence of a "third way" between the polarities of active state management versus pure regulation. The Palli Daridro Bimochon Foundation – with senior government officials playing a central role on its board of directors, and utilizing converted government assets (capital, personnel, equipment) – offers a "blended" model.

2) ***The appropriate role for microfinance in the "new architecture" of aid***. Current development discourse promotes multi-stakeholder policy-and program-level interventions, such as poverty reduction strategy papers (PRSPs) and sector-wide approaches (SWAps) that call for pooled (rather than individual) investments by donors in country-driven plans (CIDA, 2001; OECD, 2000; World Bank, 2001). The case of the PDB Foundation draws attention to the possibility that governments can play an arm's length role in promoting scaled-up and effective microfinance within the broader framework of national poverty reduction efforts (Kassam, 2002). Further, there is a role for external technical assistance to ensure that this role is played effectively, *and* that government is not permitted to reassert full ownership and control over the microfinance intervention. Thus, in PRSPs or SWAps, governments can choose to play the role of policy formulator and regulatory enforcer in microfinance. But, in addition, they may also choose to play an arm's length partnership role in order to gain a "window" on policy implementation in this important field of poverty reduction.

3) ***Methods for achieving the sustainability of microfinance institutions.*** Perhaps more than any other sector, the microfinance sector globally has been preoccupied by, and has generated a host of innovations for, achieving institutional sustainability. This usually involves some combination of raising interest rates, increasing lending volume, improving system efficiencies, and diversifying across other products (adding mortgages, insurance, credit cards) and clientelle (including the non-poor) (Fernando, 2000, Ledgerwood, 1999). The PDBF case demonstrates the power of mobilizing group-member savings as a means of levering external capital to boost lending volume and operational scale. However, the Foundation's predecessor projects suffered from an unwillingness to raise interest rates and from low staff productivity, as measured by loan-disbursement per field employee. The Foundation also failed to diversity its product line and clientelle. Furthermore, like other MFIs, the Foundation also intentionally continued to "carry" a major training component that required significant subsidy, affirming that this was part of its blended model.

4) ***Strategies for effecting large-scale institutional transformation and capacity development.*** Institutional change and capacity development are central concepts in today's development discourse, as they should be. The PDBF case shows that capacity-development must involve all levels of intervention, from individual borrowers and lending groups, to the national institution, to the level of law and policy. In the PDBF case, most work focused on the micro and meso levels for a full decade before serious efforts were made to draft and lobby for enabling legislation for the Foundation model. Ultimately, this change process was also a matter of staying power—of sheer endurance. Large amounts of money and time were required to transform what began as a government rural-development project to a nonprofit, business-oriented microfinance institution. This continuity enabled the proponents of change to counter opposition to it, and to strengthen the resolve of stakeholders in moments of conflict or indecision.

5) ***Strategies for promoting gender equality in poverty reduction.*** In development cooperation, there remains a strong Northern and significant Southern constituency for promoting gender equality in poverty reduction. In the case of PDBF, there were sustained efforts to promote GE at the micro and meso levels for more than a decade. At the macro-level, the Act bringing the Foundation into existence makes special reference to giving preference to the women as borrowers. However, the lack of implementation of the new institution's Gender Policy demonstrated the inertia and resistance by project leadership, both Bangladeshi and Canadian, to more thoroughgoing changes than hiring a larger percentage of women field staff and lending to a larger percentage of women borrowers. In one of the intervention's most serious failures, gender policy implementation was, in effect, subordinated to banking and credit issues. Finally, the effect of lending on intra-household gender and income dynamics remains fairly opaque, as it does for other MFIs (see Rahman, 1999; Mayoux, 1998), and needs much more work.

Conclusions

In development practice, there are no perfect projects. As with this case study, there are only dialectical dualities: achievements and challenges, victories and failures, solidarity and conflict. In the end, the most important *permanent* task is to learn—and to improve.

In fact, the experience of the PDB Foundation could accurately be viewed as a series of successive approximations in trying to get government-sponsored microfinance "right." After more than a decade, the PDBF model is elaborated and in place, and some of its components have been tested on a large scale. But still more remains to be done. The model has not yet been *fully* tested. Nor have its opponents been fully appeased. However, the Foundation *has* become a reality. And, the longer it perseveres, the greater the chance it will have of achieving its goal of sustainability—both institutionally, and for the households it serves. The project—and the policy experiment—continues.

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