A Review of Microfinance: What do we know?

by
Erica Lumianski

A THESIS

submitted to

Oregon State University

Honors College

in partial fulfillment of
the requirements for the
degree of

Honors Baccalaureate of Arts in Political Science
(Honors Associate)

Presented June 14, 2019
Commencement June 2020

AN ABSTRACT OF THE THESIS OF

Erica Lumianski for the degree of Honors Baccalaureate of Arts in Political Science presented on June 14, 2019. Title: A Review of Microfinance: What do we know?.

____

Abstract approved: Sarah Henderson

Microfinance boomed as a development trend in the early 2000s as it was appealing to varying political perspectives and was also seen as a major innovation in poverty reduction policy. Starting with the Grameen Bank in Bangladesh in 1976, microfinance spread to Latin America in the 1980s, and later to Africa and developed countries. However, since its rise in popularity, some have questioned its effectiveness, as many advocates of microfinance touted anecdotal studies and high repayment rates as proof of its success. This qualitative evidence clashed with current development trends of randomized control trials and the need to quantitatively verify and implement “what works”. It has also been criticized for purposes related to its management and structure, and that it does not fully reach its target population – the extremely poor. However, recent innovations address some of these critiques; for example, person-to-person microfinance facilitates funding to microfinance institutions, new banking technology reduces the transactions costs of providing loans, and other programs that target the extreme poor by making the acquisition and repayment of loans easier. The purpose of this thesis is to synthesize the immense body of literature surrounding microfinance and evaluate its progress and limitations with eliminating poverty. Further, the thesis will comment on the current state of microfinance throughout the world, identify some innovations that respond to its many critiques, and attempt to determine whether it is still a relevant poverty-eliminating tool.

Key Words: Microcredit, microfinance, microloans, financial inclusion, poverty

Corresponding e-mail address: erica.lumianski@gmail.com

A Review of Microfinance: What do we know?

by
Erica Lumianski

A THESIS

submitted to

Oregon State University

Honors College

in partial fulfillment of
the requirements for the
degree of

Honors Baccalaureate of Arts in Political Science
(Honors Associate)

Presented June 14, 2019
Commencement June 2020

Honors Baccalaureate of Arts in Political Science project of Erica Lumianski presented on June 14, 2019.

APPROVED:

____
Sarah Henderson, Mentor, representing Political Science

____
Hua-yu Li, Committee Member, representing Political Science

____
Brianna Beene, Committee Member, representing College of Business

____
Toni Doolen, Dean, Oregon State University Honors College

I understand that my project will become part of the permanent collection of Oregon State University, Honors College. My signature below authorizes release of my project to any reader upon request.

____
Erica Lumianski, Author

I. Introduction

Despite unprecedented progress in reducing levels of poverty in countries all over the world, developing nations are home to millions of people living in extreme poverty. Internationally, extreme poverty is defined as living on less than $1.90 USD per day (Emmerson, 2019). According to the World Bank, in 2015, 736 million people live below this line, approximately 10 percent of the global population (World Bank, "Poverty Overview," n.d.). In practice, this means that millions are unable to live the lives they might value, for they have limitations that come with surviving on this low income including limited access to food, shelter, medicine, and education. There is a large effort to improve the conditions of those living in the most extreme poverty, with a number of poverty-eliminating solutions in operation and new ones continually being tested.

One solution is known as microcredit, or microfinance. It is one of the largest potential solutions to poverty, "both in financial terms and in relation to the number of poor people targeted" (van Rooyen et al., 2012, pp. 2249). While both terms are often used interchangeably, microcredit refers to providing small loans, while microfinance refers to providing small loans as well as other financial services to those in poverty (Rajdeep & Aubuchon, 2008). People living in extreme poverty are often excluded from financial opportunities that are widespread in developed countries, such as traditional banking services. According to the World Bank Global Findex database, 1.7 billion adults were considered unbanked, that is they lacked "an account at a financial institution or through a mobile money provider" in 2017 (The World Bank, "Global Findex Report," 2017). Banks are important because they give people access to credit, loans and savings accounts and the opportunity to expand financial growth and income; however, they rely on applicants' credit history and collateral to do so. Further, people living in rural areas especially often lack credit history, which is usually established through prior loans that allow the lender to assess the risk of the borrower, as well as traditional forms of collateral, which provide compensation if a borrower defaults on a loan. Microcredit offers a solution to this problem by granting small loans to low-income individuals and finding ways around their lack of collateral and credit history.

Microcredit seeks to fill the gap created by the lack of traditional banking services offered to low-income individuals. It does so by providing small loans – from $100 to several thousand dollars, granted to groups rather than individuals. Members of the group monitor each other, one of the many innovative ways in which microcredit programs get around lack of credit history and collateral. By providing small amounts of financial capital, microfinance seeks to foster entrepreneurial growth for extremely low-income individuals, by supporting their existing businesses or enabling them to start up new businesses. Through lending to underserved communities, it encourages entrepreneurship and supports access to financial inclusion. Professor Mohammad Yunus, credited with creating modern microfinance, emphasized the idea of "economic and social development from below" (Yunus, 2015), to give the poor an opportunity to improve their own lives rather than relying on outside funding.

Microcredit became an internationally popular development trend. 2005 was named the International Year of Microcredit, with the slogan "Building inclusive financial sectors to achieve the Millennium Development Goals," and in 2006, Mohammad Yunus won the Nobel Peace Prize for his pioneering work (Saxena, 2014). Microcredit subsequently boomed as a potential development solution around the beginning of the 21st century and was widely accepted across varying political views. Although the overall idea is not new, its widespread popularity is. The idea of microfinance was attractive to international institutions because of its appeal to both neoliberal and more radical development perspectives. On the one hand, it emphasized improving entrepreneurial outcomes of the poor, and addressed the exclusion of the poor by the formal financial sector. It also appealed to supporters of more left wing development solutions by expanding access to credit for poor individuals in developing countries and to market enthusiasts through its focus on supporting low-income entrepreneurs who already had the skills to potentially raise themselves out of poverty but lacked the capital to do so. The high rates of repayment produced by the group lending model and interest rates that covered high transaction costs allowed the formal sector to engage in lending to poor individuals, when it had previously been too risky (Saxena, 2014). The development world buzzed with excitement at the idea of a system that could lift individuals out of extreme poverty entirely.

The initial excitement associated with microcredit soon died out among the development world. Initially hailed as an innovative and successful solution to exclusion from formal banking systems and a potential poverty fix, over time scholarly research questioned the true impact of microcredit. There are a number of barriers to effectively research the true impact of microfinance. Thus, microfinance institutions (MFIs) tend to showcase anecdotal evidence to measure the success of microcredit. To some individuals, microfinance has made a significant impact in improving their living conditions and increasing their income. With current development trends focused on randomized control trials and concrete evidence of development policy effectiveness, microfinance appears to fall short in terms of proven success on a widespread basis (Banerjee & Duflo, 2011). Quantitative research is lacking a consensus on the benefit of microfinance to the average individual (Duflo et al., 2013) and the sustainability of microfinance institutions is questionable.

Additionally, as the popularity of microfinance spread across the world, new structures and institutions to support its growth arose, and research is lacking in studying the variety of microfinance systems and the benefits and problems with each one. Since its start in Bangladesh, microfinance has spread across the world to serve more and more developing countries, as well as the low-income populations of some developed countries. Structures of microfinance institutions have expanded from being primarily government-sponsored, to independent nonprofit organizations, to for-profit commercial institutions. Each structure has its benefits and limitations. Microfinance has also expanded in the services that it provides. While initially beginning as primarily loan-based, some institutions now offer savings and insurance programs, and financial education. There is not one single version of microfinance, making it difficult to determine the overall effect of the policy.

We know that microfinance has the potential to impact low-income individuals and boost the growth of their small businesses as we've seen from anecdotal evidence and individual reports. We do not know to what extent microfinance benefits the average user (Duflo et al, 2013) and exactly how effective it is in eliminating poverty in developing countries. There is some debate around how to accurately measure the effectiveness of development policies – no one outcome is used to measure success. Possible measurable outcomes include loan repayment rates, change in income, change in consumption, change in savings, etc. There are several ideas that have been created to respond to some of the most pressing problems with microfinance, such as facilitating the funding of non-profit MFIs, programs targeted to only the poorest individuals, and giving them the best opportunity for success with borrowing.

This paper seeks to summarize the effectiveness of microfinance through existing literature, identify prominent successes and critiques before speculating on the value, or lack thereof, of microfinance as a development policy. It will begin by reviewing the existing literature surrounding microfinance, including an overview of its history, and how it has changed over the past decades. Next, it will discuss global concerns surrounding microfinance as a poverty solution and critiques to its models. Finally, it will examine innovations that have developed to solve some existing problems. This paper seeks to contribute to existing literature by identifying areas that lack research and synthesizing contemporary developments in microfinance.

II. Literature Review

In contrast to many developed countries, where large and small businesses exist and employ low-income individuals at a low to minimum wage, developing countries lack a formal labor market to employ people in poverty. To earn an income, people in poverty in developing countries often create their own business by selling a product such as farm-grown produce or providing a service like taxi driving. While these businesses generate some income, profit margins are often razor thin, and the poor must work hard to maintain them. Sudden shocks such as a drought during the growing season or car trouble can be devastating. The ability to borrow small amounts of money has the potential to smooth such shocks and allow microentrepreneurs to invest money to expand their businesses. Microcredit aims to give poor people this ability.

The problem that microcredit addresses is the exclusion of poor people from traditional banking services, namely credit. Credit is useful for income growth because it allows individuals to invest in capital to potentially expand or start a profit-generating business, or to facilitate or change consumption. In theory, access to capital allows borrowers to invest in their businesses and provide more of their services or products, in turn generating higher profits. Capital can also be used to smooth out consumption shocks. For example, if a poor farmer in rural India experiences a drought during the growing season, the availability of credit reduces the negative effect she would feel from the loss of this profit and allows her to support her family and continue her agricultural business. Without access to credit, shocks like these could be devastating, and individuals continue to rely on tiny profit margins to survive (Emmerson, 2019).

Low-income individuals are generally excluded from formal banking services for several reasons. First, banks rely on credit history to determine the level of risk of a borrower and collateral to offset the loss of a borrower defaulting on their loan. People living in extreme poverty often do not have valuable collateral to offer the bank and have not had the opportunity to establish a credit history because they are not eligible for loans. These individuals pose a high risk for lenders, who have no way to be sure that they will be repaid. Second, the transaction costs of lending to the poor are higher for lenders. It costs more for a bank to make ten loans of $100 than to make one loan of $1,000, due to administrative and monitoring costs of distributing loans (Hermes & Lensink, 2008). In addition to high transaction costs, there is a prevalent stereotype that the poor are "uncreditworthy: that is, they lack the skills or expertise needed to put the borrowed funds to their best possible use" (Sengupta & Aubuchon, 2008, pp. 11). Generally, individuals living in extreme poverty lack the necessary conditions for traditional banks to grant them a loan and are thus excluded from a financial system that could potentially increase their income and help lift them out of poverty.

However, this does not mean that they are not able to borrow money at all. Moneylending has existed since before the first millennium B.C. (Miller, 2010) and has continued through modern day, often through informal systems in developing countries. Local residents in a community often become informal lenders, using personal knowledge of borrowers and accepting alternate forms of collateral instead of credit history and traditional collateral. These lenders are more flexible than traditional banks and adapt to the unique conditions of rural credit markets to fill the gap of lack of access to credit (Weiss & Montgomery, 2004). Friends and family also serve as unofficial lenders, but the supply of funds is usually limited (Weiss & Montgomery, 2004). Rotating Savings and Credit Associations, or ROSCAS, have similarly developed to provide low-income community members access to credit and savings (Miller, 2010). Groups form and collect savings from each member, similar to the group lending model of microcredit. On a rotating basis, each member uses the savings collected. Loan sharks are also prevalent, although they often demand high interest rates for loans.

While these informal solutions sometimes have success, they lack institutionalized structure and are not accessible to all low-income individuals (Emmerson, 2019). Microcredit institutions offer a formalized lending alternative that incorporates borrowers' lack of collateral and credit history and targets low-income communities and individuals across the world. Additionally, MFIs can offer loans at a lower cost to the institution and the borrowers. Having a formalized structure for microfinance increases efficiency in monitoring and screening borrowers, due to the economy of scale from using the same structure to serve more borrowers. Also, the use of group liability methods allows MFIs to lower interest rates where local moneylenders cannot. In theory, MFIs can offer loans at a lower cost and to more potential borrowers than moneylenders, supporting "an argument for both the efficiency (because of the reduced cost of funds) and welfare enhancement (because of an increase in the borrower pool) of microfinance" (Sengupta & Aubuchon, 2008, pp. 18).

<u>Development of Modern Microfinance</u>

Microcredit is not new. The concept of microcredit has been around for centuries, from "*hui* in China, *chit funds* in India, *arisan* in Indonesia and the *paluwagan* in the Philippines," but these early forms of microcredit never became an important aspect of the modern financial system in any of these countries (Miller, 2010, pp. 60). The term microfinance, "originally meant to comprise financial intermediation between savers and borrowers," was coined in 1990 (Miller, 2010, pp. 24). However, modern microfinance, and what would become known as the microcredit revolution began in Bangladesh during the 1970s with Professor Yunus and the Grameen Bank.

In the mid-1970's, Professor Muhammad Yunus saw the need for a structured institution to distribute small loans to poor individuals. His idea started when he visited the town of Jobra, Bangladesh, where women were trapped in poverty through a cycle of borrowing money from local moneylenders for raw materials to make bamboo stools, only to make tiny profits due to the high interest rates on their loans. Specifically, 42 women owed $27 which prevented them from earning profit on the sale of their stools. Yunus lent them his own money to cover their small debt (Sengupta & Aubuchon, 2008), which inspired him to find a way to provide small loans to these already skilled individuals to allow them to earn higher profits through their business. He developed a group lending model, predominately to women, who were believed to be more reliable in repaying borrowed funds. In 1976, the Grameen Bank was born (Levin, 2012), and microcredit was forever changed.

Through the Grameen Bank, Yunus emphasized the idea that providing loans to poor individuals was better than charity because it would allow them to lift themselves out of poverty by consistently repaying loans (Saxena, 2014). His organization successfully showed that small groups, mostly women, were fully capable of repaying loans distributed to them by a formal institution if given the correct incentives and flexibility. Yunus explains that microcredit from the Grameen Bank is different than previous forms, most importantly that it does not rely on any collateral or legal contracts, instead based on trust of the individual (Sengupta & Aubuchon, 2008). Yunus revolutionized microcredit by replacing the need for collateral with other risk management ideas such as group liability. Initially state-sponsored, the Grameen Bank became independent in 1983 (Saxena, 2014).

By 2008, the Grameen Bank expanded to serve over 5.5 million borrowers, more than 95 percent female (Sengupta & Aubuchon, 2008). The Grameen Bank was revolutionary for microcredit in that it "challenged decades of thinking and received wisdom on lending to the poor" (Sengupta & Aubuchon, 2008, pp. 11), influencing financing institutions and development organizations worldwide. This idea is supported by the success of showing that "poor households can benefit from greater access to credit and that the provision of credit can be an effective tool for poverty alleviation" and "that institutions do not necessarily suffer heavy losses from lending to the poor" (Sengupta & Aubuchon, 2008, pp. 11). It also provided a successful model that was recognized and replicated across the world.

<u>Asia:</u>

South Asia has been termed the "cradle of microfinance" (Patel, 2005), because it is seen as the birthplace of modern microfinance and has continually reached the largest numbers of low-income individuals. According to the World Bank, "about 45 percent of all the people in the world who use microfinance services" are in South Asia (Patel, 2005). While Asia has experienced a dramatic reduction in poverty over the last few decades, falling by over 920 million from 1990 to 2013 (World Bank, "East

Asia and Pacific Overview," 2018), over 1 billion people remain without access to formal financial services (Bhardwaj et al., 2018). It is estimated that "only 27% of adults have a bank account, only 33% of firms have a loan or line of credit" (Bhardwaj et al., 2018).

While it may have been the first, the Grameen Bank was far from the only microfinance institution to serve in South Asia; many others exist there as well. Also originating in Bangladesh, Building Resources Across Communities (BRAC) is the world's largest development NGO that supports microfinance for development (BRAC, 2016). India is also a hotspot for MFIs due to the large population size and proportionally large population of extremely poor individuals. For example, the Self-Employment Women's Association (SEWA) is a trade union that exists in the country to support self-employed women in poverty, including providing financial services (SEWA, 2019). Although microfinance is most well known in India and Bangladesh, it is present across the region, from Afghanistan to the Philippines.

Since the 1970s, microfinance institutions have spread outside of South Asia, operating in rural and urban areas in countries around the world (Sengupta & Aubuchon, 2008). The Grameen model of institutionalized microcredit has since been transferred to many countries across the world including Bolivia, Chile, China, Ethiopia, Honduras, India, Malaysia, Mali, the Philippines, Sri Lank, Tanzania, Thailand, the United States, and Vietnam (Sengupta & Aubuchon, 2008). Unfortunately, simply replicating a model that is successful in one country does not mean that it will work everywhere, as many unsuccessful replications of the Grameen model have shown (Miller, 2010); markets, individuals, and needs vary in each location.

<u>Latin America:</u>

Soon after its inception and widespread recognition from South Asia, microfinance spread to a region with similarly large populations of people living in extreme poverty: Latin America. According to the Economic Commission for Latin America and the Caribbean, 10.2% of the population, about 62 million people were living in extreme poverty in Latin America in 2017 (Economic Commission for Latin America and the Caribbean, 2019). Around 65% of the regional population, or 250 million “do not use formal or semiformal financial services (Chaia, 2010). Many MFIs have been created to satisfy this need for credit but are structured much differently than the South Asian models.

Microfinance institutions in Latin America developed in a way that was unique to the region. Like the Grameen Bank, most models use group liability model for providing microloans. For example, Compartamos, founded in 1990, uses the group-liability model and lends primarily to rural female borrowers (Sengupta & Aubuchon, 2008). Banco Solidario, or Banco Sol in Bolivia also uses the group-liability model, but in contrast to the Grameen Bank, Banco Sol has a primary goal of returning a profit, with a secondary goal of poverty alleviation (Sengupta & Aubuchon, 2008).

However, although most started out with models similar to the Grameen Bank, they quickly transformed into for-profit models. El Banco Solidario in Bolivia started as a non-governmental organization (NGO) that provided small loans to groups for entrepreneurial uses in the mid-to-late 1980s. Banco Sol became a commercial bank in 1992 due to regulatory legal and financial constraints on NGOs (Weiss & Montgomery, 2004). Similarly, in 1998, Compartamos transitioned to become a regulated financial institution, with the help of Accion International, an organization that provides support and research for MFIs. In 2006, Compartamos restructured again, this time becoming a commercial bank in order to offer services other than credit for working capital (Sengupta & Aubuchon, 2008).

The Latin American models revolutionized microcredit, pioneering commercial microloans and institution structures. Compartamos was revolutionary as an MFI in that it “became one of the first MFIs to issue public debt, listing themselves on the Mexican Stock Exchange” and was first to sell domestic bonds to raise additional funds in Mexico in 2002 (Sengupta & Aubuchon, 2008, pp. 16). This commercialization has benefited the MFI in a number of ways. "By accessing the commercial market, Compartamos has been able to lower the cost of obtaining funds and, in turn, offer better services to their borrowers, such as absorbing the costs of providing life insurance for all clients. Their efforts to improve operational efficiency have also created a self-sufficient MFI that has existed without subsidies for over a decade" (Sengupta & Aubuchon, 2008, pp. 16). In Bolivia, transitioning to a commercial bank, allowed the institution to offer a variety of financial services including credit, savings, and insurance (Weiss & Montgomery, 2004). Microfinance institutions in Latin America took microcredit one step further by introducing a for-profit, sustainable organization structure.

<u>Africa/MENA</u>

More recently, microfinance institutions spread to Africa, an extremely important region; Sub Saharan Africa contains the largest concentration of extreme poverty in the world, accounting for over one half of the world's extreme poor. Unlike other regions where poverty rates have dropped, this number is increasing, "the number of poor people increased by 9 million, with 413 million people living on less than US$1.90 a day in 2015, more than all the other regions combined. If the trend continues, by 2030, nearly 9 out of 10 extreme poor will be in Sub-Saharan Africa" (World Bank, "Poverty Overview," 2019). Around 326 million, or 80% of adults who live in Sub-Saharan Africa "do not use formal or semiformal financial services" (Chaia, 2010). The microfinance industry in Africa is one of the fastest-growing markets for MFIs, primarily supporting farming-based businesses (Tayal, 2018). In total, the region supports a "gross loan portfolio of $8.5 billion", serving roughly 8 million people (Tayal, 2018). However, large barriers to the provision of microfinance are caused by structural weaknesses of the MFIs themselves. There is a notable lack of resources that limits their capacity to "match the needs of the poor" (Schwank & Hamam, 2011). Support from African governments could significantly boost the ability of MFIs on the continent to provide greater access to financial services for the African population

(Schwank & Hamam, 2011). Ironically, the region that needs microcredit the most is unable to leverage its potential.

A similarly new region to adopt microfinance strategies is the Middle East and Northern Africa, known commonly as MENA. This area contains the lowest level of financial inclusion worldwide, with only 14% of adults and only 9% of women having a bank account on average (FIMENA, 2019). The region has recently been working on increasing financial inclusion as shown through a 2015 conference on "Financial Inclusion and Employment in the Arab Region" held in Jordan, and a subsequent campaign on financial inclusion for women (FIMENA, 2019). The microfinance market in MENA is "among the youngest and slowest growing in the world," and its level of development varies across the region, with Morocco, Egypt, Jordan and Yemen containing more developed markets, while Iraq and Sudan have newer and less developed markets (Arab Business Review, "Microfinance in MENA," N.d.). Similar to the majority of Africa, MFIs in MENA lack institutional and regulatory support, an underlying cause of the "undergrowth of the microfinance sector in MENA" (Arab Business Review, N.d.). As part of this underdevelopment and lack of support, the primary service offered through microfinance is credit, lacking other services such as savings and financial education (Arab Business Review, N.d.).

<u>Developed countries</u>

Despite overall higher standards of living in high income countries, there nonetheless are large populations of very low-income individuals in developed countries as well who are similarly excluded from banking services. It's difficult to determine the quantity of these populations, as rates of extreme poverty in high-income countries are not accounted for by the World Bank. However, that does not mean they don't exist (Ortiz-Ospina, 2017). According to McKinsey Quarterly, 8%, or 60 million adults living in high-income OECD countries "do not use formal or semiformal financial services" (Chaia, 2010). Microfinance has spread to developed countries to target these groups. As with variations in microlending between developing regions around the world, microfinance in developed countries is not the same as in developing countries.

In the United States, for example, many microfinance institutions have arisen to reach the large low-income population. An early example of an MFI in the United States was the Good Faith Fund. In 1986, Muhammad Yunus visited Arkansas to meet with governor Bill Clinton with the purpose of discussing microfinance. Modeled after the Grameen Bank, the Good Faith Fund was among the first MFIs to be established in the United States (Sengupta & Aubuchon, 2008). However, the effectiveness of the Good Faith Fund soon came into question. Social and cultural differences between communities in rural Arkansas and rural Bangladesh prevented the Grameen model from working effectively as it did in its country of origin (Sengupta & Aubuchon, 2008). Where developing countries often have more geographically and socially close communities, and group lending is possible, individuals in rural Arkansas were often unable to form such a group (Sengupta & Aubuchon, 2008). As a result, group lending was eliminated from the Good Faith Fund's model. As it exists today, the Good Faith Fund primarily provides business development training to its clients, as well as offering loans to small and relatively small businesses with less access to bank services, but of quantities $100,000 or more, too high to be considered traditional microcredit (Sengupta & Aubuchon, 2008). The Good Faith Fund provides a good example of general problems that arise with microlending in developed countries.

Yunus argues that the welfare system in developed countries is "the greatest nemesis" of microfinance (Sengupta & Aubuchon, 2008, pp. 25) because people living in poverty are less inclined to start microbusinesses if they can obtain funding through welfare. A lack of microenterprise opportunities, community group structure and an abundance of other options are other barriers of microfinance to low-income individuals in the United States (Sengupta & Aubuchon, 2008). Additionally, availability of low-wage jobs and relatively small number of micro-entrepreneurs inhibit microfinance systems. Regulations on small businesses obstruct micro-entrepreneurs and competition from much larger businesses makes starting up micro-enterprises much more difficult (Sengupta & Aubuchon, 2008). However, microfinance institutions continue to operate in developed countries, adapting to these challenges in an attempt to serve the low-income, unbanked populations.

Variations between Regions

After several decades of development in regions with vastly different demographics, many variations of microfinance programs evolved. In a 2001 study, the Asian region was shown to have "accounted for the majority of MFIs, retained the highest volumes of savings and credit, and served more members than any other continent" (Weiss & Montgomery, 2004, pp. 3).Where microfinance started in South Asia, the traditional and widespread model was primarily NGOs serving rural communities (Weiss & Montgomery, 2004). In contrast, MFIs in Latin America served more urban than rural communities and was largely commercial early on. Thus, Latin American MFIs were generally less focused on poverty alleviation and more concerned with microenterprise and are generally more financially sustainable than those in Asia (Weiss & Montgomery, 2004). In becoming the first ever microfinance NGO to transform to a commercial bank, BancoSol became the first regulated microfinance bank (Weiss & Montgomery, 2004). As such, it boasted superior profitability to other banks in Bolivia. Many other MFIs followed its lead, with "at least 39 other important NGOs worldwide transformed into commercial banks over the period 1992-2003" (Weiss & Montgomery, 2004, pp. 4).

Table 1: Outreach Indicators by Region

	Average Loan Balance per Borrower (US$)	Average Saving Balance per Saver (US$)
Africa	228	105
Asia	195	39
Eastern Europe/ Central Asia	590	N/a
Latin America	581	741
Middle East/ North Africa	286	N/a

Source: *Microbanking Bulletin* Issue #9, July 2003

Variation in Organization Structure

Not only has microfinance expanded geographically, it has expanded in the number of borrowers it serves and organizations which offer its services. By 2008, it was estimated that 67.6 million borrowers were served by 1,000 to 2,500 MFIs in over 100 countries (Sengupta & Aubuchon, 2008). Microfinance became appealing to not only organizations with a poverty elimination focus, but also to institutions that recognized the profit that could be made from small loans with high interest rates, as shown by the Latin American MFI models. Foreign investment in MFIs became popular, as microfinance became viewed as an opportunity for an increasingly profitable investment. Although it began as a tool for poverty alleviation, this is not the central focus of all MFIs; while some operate as non-profit organizations, such as Grameen Bank, others such as Banco Sol in Bolivia operate with the goal of returning a profit (Sengupta & Aubuchon, 2008). Financing microfinance institutions has become viewed by many commercial banks and investors such as Citigroup, Deutsche Bank and HSBC, as a way to demonstrate support of social missions while also engaging in a profitable investment (Hermes & Lensink, 2008). As it has spread, microfinance models have adapted and changed to serve different communities and interests and there are now a wide variety of models in existence.

As started in South Asia, the traditional MFI model is that of a non-profit government-supported institution or a non-governmental organization (NGO). The NGO and non-profit system often lead to a better focus on the goal of poverty alleviation. Since the institution is less concerned with making a profit, they take on the high risk of lending to the poorest. However, there is a clear downside. Non-governmental MFIs are mostly unsustainable in that they require subsidies to continue operating (Weiss & Montgomery, 2004). Additionally, to continue receiving funding, they must prove to their sponsors that the institution can successfully serve the poor in a cost-effective way, compared to other poverty alleviation methods (Weiss & Montgomery, 2004).

As MFIs became more diverse, many have adopted the commercial model of lending. Additionally, many commercial banks, both state and private, began offering microloans. Among these are state banks such as Banco Nacional in Costa Rica and Bank Rakyat in Indonesia, as well as private banks such as the former Bank Dagang Bali in Indonesia, Philippines, Pakistan, Malaysia, Nepal, Thailand, Banco Agricola Comercial in El Salvador, Banco del Desarollo in Chile, Banco Wiese in Peru, and Banco Empresarial in Guatemala (Weiss & Montgomery, 2004). In both cases, commercialization of microcredit has led to a number of advantages for the efficiency of the institution and the social mission, including "increased access to funding and regulatory authority freeing the institutions from dependence on donor-funds and capital constraints on growth and allowing them to offer a wider range of financial services" (Weiss & Montgomery, 2004, pp. 5). It also created several disadvantages. One of these is known as "mission drift," meaning the focus away from the original mission of poverty alleviation. Additionally, the adoption of a commercial model has led to concern that the MFI will stop serving the initial target population of poor clients due to higher standards for granting commercial loans (Weiss & Montgomery, 2004).

Variation in Services Provided

One benefit in the increase of access to microcredit is the increased competition between MFIs. As more lending institutions become established, interest rates and transaction costs are lowered, increasing efficiency and encouraging the development of additional services for borrowers, such as saving accounts and insurance services (Hermes & Lensink, 2008). “Some MFIs have also begun to seek out public and international financing, further increasing their amount of working capital and expanding the scope of their operations” (Sengupta & Aubuchon, 2008, pp. 13) to provide more services and reach more borrowers.

There are several services that have become included by many MFIs. One is insurance. As low-income individuals are excluded from the formal banking system, they are often similarly excluded from access to insurance. Some forms of insurance that are increasingly being offered by MFIs include health insurance, debt relief after the death of a borrower, and natural disaster insurance. (Sengupta & Aubuchon, 2008). Another service is savings programs. While the notion of savings may seem basic in a financially developed economy, many people do not save, not due to financially irresponsibility. Savings has long been an important component of microfinance models, sometimes forcing borrowers to save a portion of their borrowed funds to encourage long-term saving, but ignoring “the fact that many poor save for the short term to smooth consumption during seasonal lows of production” (Sengupta & Aubuchon, 2008, pp. 13). The Grameen Bank at the time of its establishment was among these institutions that forced clients to save a portion of their money, 5 percent of their loan, to be put into a group account where withdrawals were limited (Sengupta & Aubuchon, 2008).

Variation in Structure of Loans and Focus

Microfinance also varies in terms of how institutions offer microloans. The group lending model was revolutionary in replacing collateral for low-income individuals and is used by many MFIs. First developed by the Grameen Bank, and Professor Yunus in 1976 (Levin, 2012), this idea attempted to solve the problem of limited collateral in low income communities. Yunus predicted that Bangladeshis would be motivated to repay their debt if they were socially responsible to do so and established the group liability model to test this idea. Groups of women held each other accountable for paying back the loan, which was distributed on a rotating basis, an average of $100 USD. Group lending addresses moral hazard and adverse selection problems as borrowers select their own groups (peer selection), assessing the relative risk of each member taking the risk away from the lending institution and putting it onto the group of borrowers who will monitor themselves to ensure the ability to borrow in the future (Sengupta & Aubuchon, 2008). New access to small loans allowed the women to invest in their own businesses and expand their opportunities to increase their personal income and live more comfortably. Many microfinance institutions have adopted the Grameen model of group liability, but as demonstrated by the Good Faith Fund in the United States, it does not work everywhere.

Another component of microfinance first started by the Grameen Bank and modeled by many MFIs afterward is lending almost exclusively to women. The Grameen Bank focused on lending to primarily female heads of household, who were more likely to invest money in businesses rather than to repay old loans and ensured higher rates of repayment. His model resulted in uncommonly high rates of repayment (Levin, 2012). There is a strong belief that women are more likely to avoid risks when borrowing, be cognizant of social consequences of defaulting, and less likely to move around as much, making them easier to monitor, ensuring a higher rate of repayment for MFIs. This belief is supported by a number of studies that show that repayment rates are higher for females than for males in both Asia and Latin America (Sengupta & Aubuchon, 2008). However, this bias towards women has caused some problems, as it has forced some men to go through their wives to obtain loans (Westover, 2008).

III. Effectiveness of microfinance

As it started with the Grameen Bank in Bangladesh, development organizations believed that this was a potential solution to poverty entirely. If destitute individuals could successfully borrow and repay loans, they could potentially continue to increase their incomes, eliminating poverty for generations to come. The results have landed far from this initial expectation. Microfinance institutions often tout anecdotal evidence to prove that microfinance indeed benefits individual people and that funding MFIs is a good use of funds for development. One measurement that is commonly used by MFIs to prove the success of microcredit is repayment rates. The Grameen Bank boasts repayment rates of over 96%, showing that the poorest are capable of responsibly managing borrowed funds. Quantitative research provides mixed results in terms of the overall effects of microcredit. Some scholarly research supports claims that microfinance positively affects the poor (Kan et al., 2005; Morris & Barnes, 2005; MkNelly et al., 1996). Additionally, microfinance has been shown to benefit poor individuals in nonfinancial terms such as improved wellbeing and welfare (Khandker, 2003), increased school enrollment – in general (Chemin, 2008) and for girls specifically (Pitt & Khandker, 1998) and women's empowerment (Rai & Ravi, 2010).

In terms of its financial effect, many studies have shown that microfinance does indeed reduce poverty (Littlefield et al., 2003); Dunford, 2006; Agbola et al., 2017; Khandker, 1998; Dunn & Arbuckle, 2001a, 2001b) and successfully helps the poorest individuals the most (Khandker, 2005; Khandker, 2003). Increased income for participants in microfinance programs has also been demonstrated (Hulme & Mosley, 1996; Chen & Snodgrass, 2001; Park & Ren, 2001; Mosley, 2001; Banegas et al., 2002; Dunn & Arbuckle, 2001a, 2001b), as well as diversified income sources and the accumulation of assets (Morris & Barnes, 2005), increased GDP (Raihan et al., 2017), and increased labor supply (Chemin, 2008). While microfinance has not been shown to impact participants ability to consume or invest [Duflo et al., 2013)], it has been shown to affect consumption in several ways, including smoothing out shocks

[Kaboski & Townsend, 2002; Gertler et al., 2003), increasing consumption expenditure (Chemin, 2008; Khandker, 1998; Pitt & Khandker, 1998), and decreasing consumption of temptation goods and increasing investment in durable goods (Duflo et al., 2013). Although this appears to be a long list of successes for microfinance, many points are directly contested by other studies. Despite these claims of the success of microfinance, serious critiques have also been identified.

Critiques of microfinance

There are two prominent areas of critiques surrounding microfinance. First are critiques of the organization and institution structure including a potential trade-off between goals of financial sustainability and outreach capacity, as well as governance, management and the primary objectives of MFIs. Second, the largest critiques of microfinance surround the opposing claims of the success of microfinance and the debate about its true impact. As stated, some studies of microfinance programs show positive effects, both financially and non-financially. For the most part, these claims are directly contested by other, often more numerous studies.

Organizational Critiques:

As institutions developed both provide the poorest with banking opportunities and to return and profit and be self-sustaining, the question arose as to whether these two goals are conflicting, whether a trade-off exists between sustainability and outreach. Several studies find no evidence of such a trade-off (Cull et al., 2007), while others contest with evidence [Olivares-Polanco, 2005; Makame & Murinde, 2006; Hermes & Lensink, 2008) or implicit evidence (Navajas et al., 2003; McIntosh et al., 2005) supporting such a trade-off. While it has been suggested that commercialization and the for-profit orientation of some MFIs could indeed increase outreach through increased efficiency in terms of "improved technology, support of commercial funding, more competition, and improved "financial market policies," in a study of 435 MFIs over a ten year period, Hermes et al found evidence of a strong negative correlation between MFI outreach and efficiency (Hermes & Lensink, 2009, pp. 20).

The next question is the true negative impact of unsustainable MFIs, as many development programs rely on funding to operate, and whether it can be mitigated. On one hand, "a lack of financial sustainability doesn't necessarily indicate a failing MFI, but rather raises questions about the mission and direction of that particular MFI. Even with subsidies, many MFIs remain the most cost-effective method to alleviate poverty; and, as we argued previously, subsidies can help change the profile of the targeted client from the poor to the extremely poor" (Sengupta & Aubuchon, 2008, pp. 22). One proposal to solve such a trade-off is to balance larger and smaller loans to improve sustainability while retaining outreach, potentially resulting increased lending ability (Gibbons & Meehan, 1999; Tucker & Miles, 2004)]. MFIs could increase capacity to issue loans if they balance their portfolio between larger and smaller loans (Gibbons & Meehan, 1999; Tucker & Miles 2004).

There are several other prominent institutional problems with microfinance as a development tool. First, in the nature of its structure, the idea of lending to those previously deemed too high risk requires that microfinance institutions post relatively high interest rates to cover these high transaction costs and increased risk of default (Levin, 2012), much higher than traditional loans in the formal banking sector. There are high transaction costs associated with providing microloans, due to the costs of "screening, monitoring and administration" for each small loan (Hermes & Lensink, 2008, pp. 5). For-profit nonbank finance companies (NBFC) recognized the opportunity to self-sustaining business off these high interest rates in various countries. In India, NBFCs expanded rapidly across the country, lending to tens of millions of borrowers with relatively no regulation from the state (CGAP, "Andhra Pradesh 2010: Global Implications of the Crisis in Indian Microfinance," 2010), allowing them to choose any interest rate for their loans (Levin, 2012). Additionally, extreme measures to enforce repayment have been reported

(Westover, 2008). This led to widespread criticism of the management of such organizations and concern that they were exploiting the poor.

There have been cases where the poor have clearly been exploited, as in the Microfinance Crisis in 2010. Many MFIs operate in Andhra Pradesh, India due to its standing as one of India's poorest and most populated provinces (Levin, 2012). Borrowing from microfinance institutions was encouraged by the government through a program to increase financial inclusion, a state-sponsored initiative that increased the amount banks could loan to such institutions (CGAP, 2010). Borrowers would take out loans from multiple institutions, with a variety of interest rates, anywhere from 24 to 120% (Levin, 2012). Concerns of exploitation grew in 2005 when the government of Andhra Pradesh shut down 50 branches of four lending institutions due to "allegations of unethical collections, illegal operational practices (such as taking savings), poor governance, high interest rates, and profiteering" (CGAP, 2010, pp. 3-4). Five years later, a suicide epidemic occurred among heavily indebted rural Indian farmers, under immense pressure who were unable to repay their loans.

Outrage against lending institutions ensued. The situation spiraled downwards; default rates increased as borrowers protested, and repayment rates reached low of 10%, causing funding for MFIs to decrease dramatically. MFIs reduced lending, leaving Indian citizens with significantly less access to funds than before and decreasing their confidence in MFIs and banks. By the end of 2010, more than 200 Indians, all in debt, committed suicide (Levin, 2012). In response, microfinance came under question internationally. Microfinance became tainted with concerns of lending institutions capitalizing on the debt of poor citizens and exploiting their poverty for profit.

Critiques of Effectiveness

On top of institutional concerns, it is questioned whether microcredit succeeds in achieving its original goal: lending to underserved, low-income communities to alleviate poverty. First, there are concerns that it does not reach the poorest of the population. As institutions strive to achieve financial sustainability, serving those in the most extreme poverty becomes more difficult. Many studies show that microfinance does not reach the poorest (Scully, 2004; Simanowitz, 2002; Ciravegna, 2005; Hulme & Mosley, 1996; Marr, 2004; Kirkpatrick & Maimbo, 2002; Mosley, 2001; Coleman, 2004), instead benefitting the “better off poor” most (Copestake et al., 2005; Coleman, 1999, 2006; Hulme & Mosley, 1996. Additionally, the group lending model might implicitly exclude the the poorest through peer selection and avoidance of any members who would be at high risk of defaulting (Weiss & Montgomery, 2004).

As many MFIs lend primarily or only to women, there have been claims that microfinance benefits women both financially and socially, supported by studies noted above. But these claims are contested. In contrast to other sources that claim microfinance improves non-monetary outcomes of the poorest, many studies find that it in fact has no effect on or women’s empowerment (Goetz & Gupta, 1996; Sengupta & Aubuchon, 2008; Hermes & Lensink, 2008). Additionally, although primarily women are granted microloans, there is evidence that “it is mostly the men of the household and not the women borrowers who actually exercise control over the borrowings. Moreover, microfinance does little to transform the status of women in terms of occupational choice, mobility, and social status within the family” (Sengupta & Aubuchon, 2008, pp. 24). There have also been studies that refute claims that microfinance improves wellbeing (Duflo et al., 2013; Karlan & Zinman, 2009; MkNelly & Dunford, 1999).

A large body of research shows that microfinance is not effective in many of the areas where it has been claimed to succeed. Duflo et al found a low demand for microfinance overall (2013), creating the question of whether the poorest themselves see microfinance as a viable tool for alleviating poverty. Moreover, many studies demonstrate no impact of microfinance on a number of variables, including overall program impact (Coleman, 1999), income or assets (Coleman, 1999), or business profits (Duflo et al., 2013). Many find little (Chen & Snodgrass, 2001) or no evidence of poverty reduction following access to microfinance (Kan et al., 2005; Morris & Barnes, 2005), or no evidence of a reduction of extreme poverty (Mosley, 2001). From these conflicting results, it is difficult to determine the true effect of access to microcredit on an average borrower (Duflo et al., 2013).

Innovative Responses to Critiques

Despite these conflicting results, individuals and organizations continue to strive to improve microfinance and respond to these many critiques. First, there have been recent developments that facilitate microlending. New and improved banking technology such as "charge cards, ATMs, use of cell phones and the internet" which "decreases costs of use and improves access to services" (Hermes & Lensink, 2008, pp. 5). Additionally, "liberalization of financial markets and establishment of regulations" facilitate lending from MFIs (Hermes & Lensink, 2009, pp. 878). These developments improve MFI ability to provide loans to the poorest without high costs for themselves, potentially diminishing the tradeoff between sustainability and outreach.

In a further attempt to reach the core poor, some institutions have developed programs that only serve the poorest, with additional financial services. Institutions such as BRAC and ASA in Bangladesh have "programs [that] aim to provide a range of services, covering training, health provision and more general social development for the disadvantaged, as well as grants of assets or credits. The ultra poor are encouraged to build up a savings fund and to graduate to conventional microfinance programs. Other variants of this approach involve greater flexibility in repayment terms for the poorest" (Weiss & Montgomery, 2004, pp. 7), such as flexiloans from the Grameen Bank. In its newer and improved version, the Grameen Bank (now known as Grameen II), began offering a flexible loan option that provides ways to repay each loan individually. Similar to group lending, these loans rely on trust that the individual will repay each loan but offers greater flexibility and the ability to reschedule the loan repayment. “If the borrower repays as promised, then the flexiloan operates exactly like the basic loan, using dynamic incentives to increase the size of the loan after each period. If the borrower cannot make her payments, she is allowed to renegotiate her loan contract rather than default. She can either extend the life of the loan or pay only the principle for an extended period of time. As a penalty, the dynamic incentives of her loan are reset; she cannot access larger (additional) amounts of credit until the original loan is repaid. Because her default now poses no threat to the group promise of future credit, each member is accountable only up to their individual liabilities” (Sengupta & Aubuchon, 2008, pp. 14).

Finally, solutions exist to facilitate the funding of MFIs. Kiva.org is an organization that connect individual lenders with borrowers in developing countries through a new system known as person-to-person microfinance. Through the Kiva website, lenders “choose a business, originate their own micro-loan, and in return receive electronic journal updates and payments from their borrower” (Sengupta & Aubuchon, 2008, pp. 28). While the lender does not receive interest payments on their loan, they are able to get their money back after the loan is repaid or lend again to a new borrower. This system expands the potential source of funds for MFIs. Kiva has received widespread recognition for its innovative approach to MFI funding, “making the microfinance movement as accessible to lenders as the Grameen Bank made microcredit accessible to borrowers” (Sengupta & Aubuchon, 2008, pp. 28). While not all critiques of microfinance are addressed by these innovations, their existence shows that the field is not dead, despite the backlash that followed its rise in popularity.

IV. Microfinance Research

<u>Problems</u>

Clearly, there is no consensus on the effectiveness of microfinance in reducing poverty, and this is due in large part to limited research on the subject. Research on the effectiveness of microcredit as a development tool is difficult for a variety of reasons. First are implicit biases and sampling problems in studying microfinance programs. “Even representative data about microfinance clients and non-clients cannot identify the causal effect of microfinance access, because clients are self-selected and therefore not comparable to non-clients” (Duflo et al., 2013, pp. 2). Microfinance institutions choose which villages to offer loans, making the sample not random (Duflo et al., 2013). Furthermore, many institutions use cross-sectional impact evaluations and compare new users of microfinance to those previously enrolled, saying that any difference between the two is the impact of microfinance. This poses a variety of problems. First, participants who drop out negatively affect the validity of the sample. Additionally, there is significant selection bias in both where the microfinance institutions choose to operate, and which individuals choose to participate and when (Karlan & Zinman, 2006). These problems limit researchers’ ability to effectively study the impact of microfinance in various communities.

A second problem is that there is no one outcome that proves success for microcredit programs. There are thus problems studying the success of microfinance [Hermes and Lensink, 2008] made more difficult due to the “difficulty of establishing an appropriate statistical methodology and implementing those standards in practice” and the variety of microfinance models and operation (Weiss & Montgomery, 2004, pp. 28). A popular variable to demonstrate the effectiveness of microfinance is loan repayment rates, used to prove that lending to the very poor can be financially sustainable for the institution. Repayment rates are “widely regarded as the greatest achievement of microfinance” as “many MFIs report high rates of repayment, often greater than 90 percent” (Sengupta & Aubuchon, 2008, pp. 18). However, there is some contention as to how accurate these rates are because they are self-reported (Sengupta & Aubuchon, 2008). As we’ve seen, other variables such as income, ability to consume, and that it transforms individuals’ wellbeing have been disputed among academic studies. Without one variable or achievement it is impossible to clearly determine whether microfinance is succeeding as it is supposed to.

Further Research

Furthermore, research is needed several areas. Further research is needed in the areas of comparing “poverty consequences” of commercial and NGO models of microfinance (Weiss & Montgomery, 2004, pp. 5) and simultaneously assessing “the success of microfinance programs in reaching the core poor”, “the effectiveness of microfinance initiatives in pulling households out of poverty”, and “the cost effectiveness of microfinance as a poverty targeting tool” (Weiss & Montgomery, 2004, pp. 2). The expansion and continued use of microcredit requires that studies provide evidence for the effectiveness of varying models, the change in effectiveness in differing conditions, and how variables common to microfinance programs interact with one another.

V. Analysis

<u>Main Findings</u>

Microfinance is a general term that describes a large variety of financial programs. There is not one model of microfinance, but many many different models with slight variations. Modern microfinance has come a long way since its start in Bangladesh in 1976. It has adapted to differing conditions in low-income communities around the world, through institution structure and services. It includes those targeted specifically to the poorest, those which provide small loans at high interest rates to make a profit, and even those that provide relatively large loans to small businesses in developed countries.

The existence of many models that operate differently also make it hard to determine whether microcredit is successful overall. It’s clear that the impact of microfinance is difficult to determine based on existing studies. This is for a number of reasons including the biases and sampling problems that come with such studies, as well as the lack of a universally recognized outcome to show success. Due to these variations, among other problems with research, the overall effect of microcredit is murky.

Further research is needed to determine the effects of specific programs and to determine which programs generate greater success under which conditions.

Interpretation

Do these problems with researching microcredit and identifying success mean that it is an ineffective development policy? The body of research used in this paper indicates that remains relevant and valuable. It is a development policy that initially received a large amount of attention and implementation over decades, but the expectations were not met with equal results. Microcredit was critiqued for a number of reasons, some valid, others not. First, the financial sustainability has been questioned for many MFIs, primarily in terms of a trade off between development goals and self-sufficiency. On one hand, an unsustainable MFI represents a program that will need continual funding to remain in operation. On the other hand, "a lack of financial sustainability doesn't necessarily indicate a failing MFI, but rather raises questions about the mission and direction of that particular MFI. Even with subsidies, many MFIs remain the most cost-effective method to alleviate poverty; and, as we argued previously, subsidies can help change the profile of the targeted client from the poor to the extremely poor" (Sengupta & Aubuchon, 2008, pp. 22). Therefore, even though an MFI might not be self-sufficient, it is still recognized as an effective poverty-eliminating tool and the trade-off between sustainability and outreach may be subject to change with new innovations. Second, the effects of microfinance are not concrete. However, simply because studies show mixed results in terms of the success of microfinance overall, does not mean that it doesn't work in individual cases or better generally for some models. Further research is needed to truly decide its effectiveness one way or another.

VI. Conclusion

Similar to many other development policies, microcredit boomed in popularity only to be left behind after some backlash and a new trend arose. This is a common symptom of the development field.

Development solutions tend to rise based on books released or programs initiated in the field and are spread by a response from the industry. For example, when modern microcredit was established in Bangladesh, the United Nations used it as a theme for the entire year of 2005 and it was further advertised by Professor Yunus winning the Nobel Peace Prize in 2006. Backlash quickly followed when the initial expectations for microfinance success were not met with conclusive study results and microfinance was dropped out of the spotlight, although additional research was still needed.

Although the initial expectations are not the reality for microcredit, it remains a valuable development tool. According to Sengupta and Aubuchon, “microfinance is not a panacea for poverty alleviation; but, with committed practitioners, a wealth of theoretical work, and a surging demand for both international and individual investment, microfinance is a poverty-alleviation tool that has proven to be both effective and adaptable” (2008, pp. 28). The intent of this paper is to identify what we know and don’t know about microcredit to provide better information for the expansion and implementation of this valuable development tool.

Reference List

Ananth, Bindu. "Financing microfinance - the ICICI Bank partnership model." *Small Enterprise Development*, vol. 16, no. 1, Mar. 2005.

"Andhra Pradesh 2010: Global Implications of the Crisis in Indian Microfinance." *CGAP*, no. 67, Nov. 2010.

Arab Business Review. (n.d.). “Microfinance in MENA.” Retrieved from Arab Business Review: www.arabbusinessreview.com/en/article/microfinance-mena

Banerjee, A. V., & Duflo, E. (2011). Poor economics: A radical rethinking of the way to fight global poverty.

Bhardwaj, Manu, et al. "Financial inclusion for Asia's unbanked." *World Bank Blogs*, The World Bank Group, 30 Apr. 2018, blogs.worldbank.org/allaboutfinance/financial-inclusion-asias-unbanked.

BRAC. *BRAC Annual Report 2016*. 2017 BRAC, www.brac.net/publications/annual-report/2016/. Accessed 6 June 2019.

Chaia, Alberto, et al. "Counting the world's unbanked." *McKinsey & Company Financial Services*, 1996-2019 McKinsey & Company, Mar. 2010, www.mckinsey.com/industries/financial-services/our-insights/counting-the-worlds-unbanked.

Duflo, Esther, et al. "The Miracle of Microfinance? Evidence from a Randomized Evaluation." *National Bureau of Economic Research*, no. 18950.

Economic Commission for Latin America and the Caribbean. "Poverty in Latin America Remained Steady in 2017, but Extreme Poverty Increased to the Highest Level since 2008, while Inequality has Fallen Notably since 2000." *Economic Commission for Latin America and the Caribbean*, ECLAC - United Nations, www.cepal.org/en/pressreleases/poverty-latin-america-remained-steady-2017-extreme-poverty-increased-highest-level. Accessed 15 Jan. 2019.

Emmerson, P. (2019). Development Economics, week 7 [lecture].

FIMENA. *Financial Inclusion in MENA*. GIZ 2016, microfinance-mena.org/category/countries/mena/. Accessed 6 June 2019.

Flannery, Matt. "Kiva and the Birth of Person-to-Person Microfinance." *MIT Press Journals*, 25 May 2007.

Hartley, Scott E. "Crowd-Sourced Microfinance and Cooperation in Group Lending." *Harvard Library*, Mar. 2010.

Hermes, Niels, and Robert Lensink. "Microfinance: Its impact, outreach and sustainability." *Centre for International Banking, Insurance and Finance (CIBIF)*.

Hermes, Niels, et al. "Outreach and Efficiency of Microfinance Institutions." *SOM Research Reports*, vol. 08002, 2008.

Karlan, Dean, and Jonathan Zinman. "Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts." *Dartmouth College*, 18 Dec. 2006.

Levin, Grace. "Critique of Microcredit as a Development Model." *Journal of Undergraduate Research at the University of Tennessee*, vol. 4, no. 1, Dec. 2012.

Ortiz-Ospina, Esteban. "Extreme poverty in rich countries: what we know and what we don't know." *Our World in Data*, University of Oxford Global Change Data Lab, 23 Feb. 2017, ourworldindata.org/extreme-poverty-in-rich-countries-what-we-know-and-what-we-dont-know.

Patel, Praful. "Microfinance in South Asia: Today and Tomorrow." *The World Bank*, The World Bank Group, 5 Dec. 2005, web.worldbank.org/archive/website01291/WEB/0__C-486.HTM.

Roberts, Peter W. "The Profit Orientation of Microfinance Institutions and Effective Interest Rates." *World Development*, vol. 41, Jan. 2013, pp. 120-131.

Saxena, Shruti. "The 2010 Microfinance Crisis in Andhra Pradesh, India and its Implications for Microfinance in India." *Reconsidering Development*, no. 1, 2014.

Schwank, Oliver, and David Mehdi Hamam. "Microfinance: What role in Africa's development?" *AfricaRenewal*, United Nations Africa Renewal, www.un.org/africarenewal/magazine/august-2011/microfinance-what-role-africas-development. Accessed 6 June 2019.

Seibel, Hans Dieter. "Does History Matter? The Old and the New World of Microfinance in Europe and Asia," Working Paper, No. 2005,10, *Universität zu Köln, Arbeitsstelle für Entwicklungsländerforschung (AEF)*, Köln, 2005.

Sengupta, Rajdeep, and Craig P. Aubuchon. "The Microfinance Revolution: An Overview." *The Federal Researve Bank of St. Louis*, 2008, pp. 9+.

SEWA Self Employed Women's Association. Self Employed Women's Association, www.sewa.org/Services_Bank.asp.

Tayal, Anand. "The Benefits of Microfinance Institutions in Africa." *The Borgen Project*, The Borgen Project, 8 July 2018, borgenproject.org/benefits-of-microfinance-institutions-in-africa/.

Tucker, Michael, and Gerard Miles. "Financial Performance of Microfinance Institutions." *Journal of Microfinance*, vol. 6, no. 1, 2004.

Van Rooyen, C, et al. "The Impact of Microfinance in Sub-Saharan Africa: A Systematic Review of the Evidence." *World Development*, vol. 40, no. 11, Nov. 2012, pp. 2249-2262.

Weiss, John, and Montgomery, Heather. "Great expectations: microfinance and poverty reduction in Asia and Latin America." *Asian Development Bank Institute*, no. 15, Sept. 2004.

Westover, Jon. "The Record of Microfinance: The Effectiveness/Ineffectiveness of Microfinance Programs as a Means of Alleviating Poverty." *Electronic Journal of Sociology*, 2008.

The World Bank. "Global Findex database." *World Bank*, World Bank Group, 2017, /globalfindex.worldbank.org/sites/globalfindex/files/chapters/2017%20Findex%20full%20report_chapter2.pdf, Chapter 2.

The World Bank. "Poverty Overview." *The World Bank*, World Bank Group, www.worldbank.org/en/topic/poverty/overview.

The World Bank. "The World Bank in East Africa Pacific Overview." *The World Bank*, The World Bank Group, 20 Sept. 2018, www.worldbank.org/en/region/eap/overview.

Yunus, Muhammad. "A Conversation with Muhammad Yunus: Social Business and Microfinance for the End of Poverty." Development Economic Lecture Series, The World Bank, 24 July 2015, Washington, DC.