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Ethics and Effectiveness of Microloans for Women in Developing Countries

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Introduction

Microloans are small loans most often given to individuals who are unable to secure loans from traditional banks due to their lack of credit history, lack of collateral, or the nonexistence of nearby commercial banks. Although microloan programs have spread across the globe, now even reaching the United States, these programs began in impoverished and rural areas of southeast Asia and Africa.

Microloan banks and programs have grown and developed in these areas for the last several decades. In addition to providing a framework for loanable funds in impoverished areas, microloans are a driving force behind female empowerment. Women have proven to be more reliable borrowers than men and have thus benefitted more from the availability of microloans. For example, from Grameen Bank—a major microloan bank founded in Bangladesh with over 2,500 branches presently—reports that 97% of their borrowers are female (Grameen.com). On their website, Grameen Bank cites two reasons for focusing their programs around women: firstly, during their early years when they gave loans equally to both sexes, women had higher repayment rates than men. Secondly, the founder of Grameen, a man named Muhammad Yunus, believes that microloans help "to empower…women" and "that the overall output of development is greater when loans are given to women…as women are more likely to use their earnings to improve their living situations and to educate their children" (Grameen.com faqs). Yunus—and others—believe that women's economic empowerment leads to women's empowerment across the board.

Women are less likely than men to find work in the formal sector, instead relying on informal markets to make money in jobs like construction labor or domestic household work for which they are not given an official paycheck. The informal sector is "characterized by non-uniformity…[and the] work is undocumented and considered as disguised wage work, unskilled, low paying, and do[es] not provide benefits to the workers" (Gupta 2011). In some of these jobs, such as construction, a significant pay gap has been documented, with men being "paid more than women" (Gupta 2011). In addition, the work can be physically demanding and even dangerous. Women working as vendors, garment makers, laborers, and domestic workers all reported sexual harassment and even assault (Gupta 2011). The formal sector is inaccessible to women for many reasons, but traditional gender roles play a major part. Because women are expected to care for children and the household, they only have time for part time work, which is much more easily found in the informal sector. The women working in the informal sector risk their safety for low pay, all while being expected to care for their home and children at the same time.

According to a survey done by the National Perspective Plan for Women, "90 percent of the total women work force is engaged in the informal sector in India" and similar numbers are true throughout "sub Saharan Africa and South Asia" (Gupta 2011). Microloans enable women to buy the materials needed to start a small business and become self-employed. A bike, a sewing machine, or a cow can make all the difference in helping women achieve steady and consistent work—work that comes without some of the dangers of other jobs in the formal sector. These larger purchases would not be possible without a loan. The income that entrepreneurial work funded by microloans provides potentially benefits women socially and politically, giving them more confidence and more legitimate power in making decisions both in their household and in their communities.

In a survey of women who "manage their own profession" in jobs such as "vegetable vendors, basket weavers, broomstick makers, or…owners of roadside food joints," researchers found that these self-employed women were in a much "better condition" as they could work "without fear of exploitation" (Gupta 2011). These women also had "a special sense of pride…which was completely lacking in all other categories" (Gupta 2011). Microloans give women the opportunity to move laterally within the informal sector away from dangerous part time labor and towards safer and more fulfilling self-employed work.

Furthermore, microloans to women arguably give rise to intergenerational returns. Research confirms Muhammad Yunus' belief that women are more likely to invest their money into their children's health and education. This investment into the future can give their sons and daughters an advantage in life that could potentially lead them out of the cyclical poverty their families experience. Despite promising anecdotal evidence, there is mixed evidence in the economics literature regarding the effectiveness of microloans in enabling women's economic success and empowerment.

In addition to the microeconomic consequences of microfinance programs, there are ethical concerns regarding the conduct and outcome of microfinance programs. Banks that offer microloans tout their ability to empower women and impoverished populations, but do not take measures to ensure the safety, security and long-term prosperity of their borrowers. Thus, the economic success of microloan programs may not be the result of moral actions but rather the result of profit-maximizing firms and individuals—which calls into question the moral narrative used to advertise these programs.

As microfinance banks have grown, concerns and criticisms of microloan programs have grown as well. Economists question the effectiveness of programs at reducing poverty and empowering women in the long run. To evaluate the successfulness of microloans, this paper examines current economic developmental literature and philosophical literature to define what economic success, empowerment, and long run efficacy would look like for microloans. The future of microloans depends on its continued economic success and support from foreign aid organizations which are concerned with the ethics and not just the efficacy of microloan programs.

There are some intriguing alternatives to microfinance, such as no-strings-attached giving—and amendments and improvements that can be made to existing bank programs, such as programming targeted at female entrepreneurs from banks that supplement loans with education and other resources to ensure real and lasting empowerment. In uniting the economic and philosophical literature, I find that microloan programs are economically successful in that they improve borrowers' financial status and defaults on loans are rare. However, microloans programs as they are implemented currently are not ethically sound. The implementation of these programs must address certain concerns to develop effective long run solutions to poverty. Addressing these concerns should also build global support for microfinance programs, which will enhance their success.

Literature Review

Microloans, at their best, is billed as a clear solution to “crushing poverty,” and as a “chance [for lenders] to do well by doing good” (Khavul 2010). Not only are microloans seen by supports as economically beneficial to all, but they are also seen as a way for lenders to benefit impoverished communities while patting themselves on the back for being so socially aware. Khavul (2010) is more hesitant and believes “it is still far from clear whether microfinancing creates [those] benefits”. While microfinance does present “a golden opportunity,” there are a “range of questions one could ask” that will help shape the growing field. As seen in Figure 1, alternatives to traditional banks are becoming more popular around the world—more people than ever have access to some type of loans regardless of where they live.

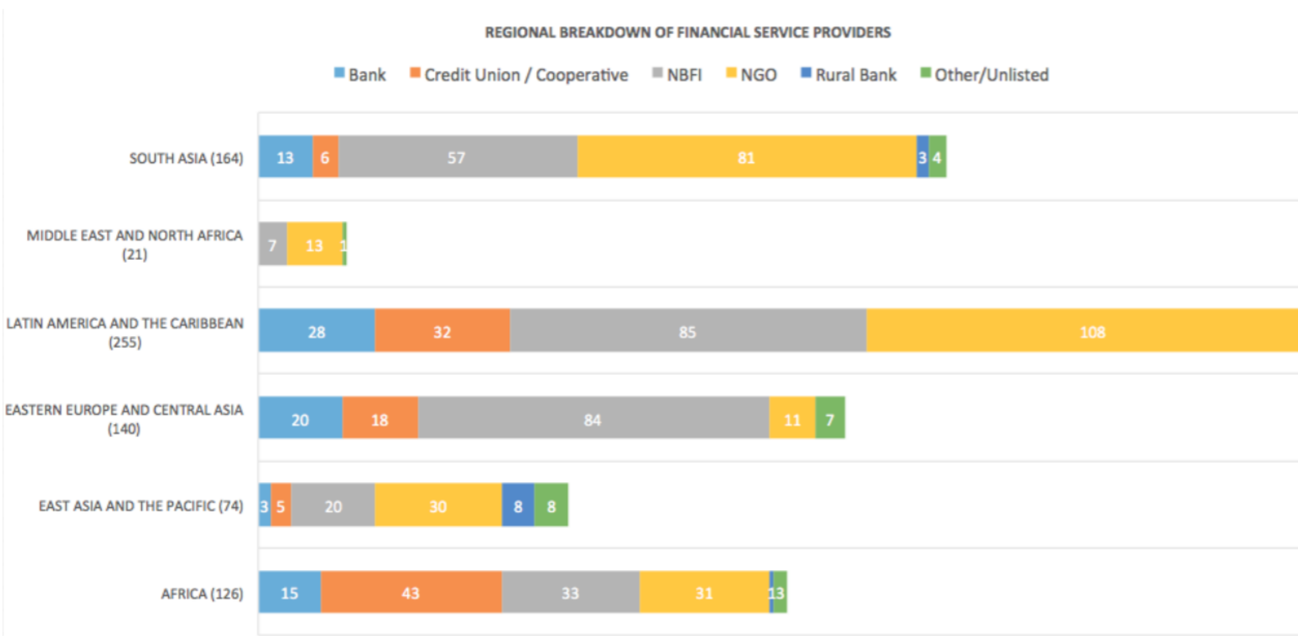

Figure 1: Regional breakdown of financial service providers (Husain 2016)

The enormous growth of microloans means that it is easier than ever for impoverished individuals to receive loans from “non-governmental,…private,…for-profit,…institutional [or] online” sources (Khayul 2010). This accessibility is a double-edged sword as it allows “borrowers to take on more debt than they can repay” (Khayul 2010). Debt in India “has gone up fivefold” from 2004 to 2009 (Khayul 2010). Some organizations have also begun “questionable practices such as high interest rates” that make the debts difficult if not impossible to pay off for the impoverished borrowers (Khayul 2010).

Khayul (2010) points out that this is a perfect time for “introspection…within the microfinance community and among its outside observers” to make sure “microfinancing is delivering on its promises” while the field is still growing. The introspection and outside analysis should be focused on ensuring microloans are still effective for borrowers while also evaluating the organizations that provide microloans to ensure they are remaining ethical and not exploiting impoverished women with few other options. The primary goal of lenders should be aid, not profit. Regulating microfinance institutions could prove difficult but also extremely necessary for the continued success of their programs.

Khayul (2010) is sympathetic towards the unique plights of the poor who “experience high seasonal fluctuations in income” and who are particularly affected by large “natural disasters” as well as in “millions of unnoticed ways—when a family member is ill, a child dies” or other local tragedies occur. These populations—who use and rely on microfinancing more than any other—“are exposed to risk and have few ways to reduce their vulnerability” (Khayul 2010). Giving microloans to female borrowers in developing countries means additional risks, but also additional responsibilities for the microfinance institutions if they wish to be successful.

Aiding the poor is a moral obligation with enormous economic motivations, implications, and effects.

However, “in the last 50 years several trillion dollars have been spent on foreign aid programs to developing countries” with very little success (Khayul 2010). This failure of many large-scale programs makes microloans all the more appealing as it allows for “individual initiative” on the part of the most needy (Khayul 2010). A major concern of Khayul (2010)’s is that while large, official banks would provide the safest, most regulated form of microloans, those same banks have the most to lose as they would be “exposed to multiple sources of risk they can neither afford to assess nor differentially price”. Because of this challenge, microfinancing still falls to smaller, newer organizations with perhaps less widespread regulation—on another level, microfinancing institutions are also still learning what regulations will be the most useful.

Overall, Khayul (2010) believes that microfinancing has its place as an option for aid to the poor—however, she also believes that it needs serious reforms that will make the programs more regulated and therefore safer for both borrowers and lenders. Khayul (2010) seems to advocate for more unity among microfinance institutions; more standardization that will hopefully lead to better and clearer results. Unlike other authors that follow, Khavul (2010) does seem concerned with the ethical responsibility that these organizations have to the populations they serve—and she does provide some suggestions for how microfinancing can improve in the future: mainly, by organizations taking on the mantle of creating a more cohesive structure that all microfinance institutions can adopt.

Morduch (1998) again points out the "strong claims" made by the fervent supporters of microloans: that the "simple…premise" of microloans can "reduce poverty" and encourage "small scale entrepreneurial activities". Like Khayul (2010), Morduch (1998) is concerned about the "ultimate impact on poor households" based on the studies done in the early 90s. Morduch (1998) focuses on areas in Bangladesh served by Grameen Bank as well as a few other local organizations compared to families in the same areas that were "not served by any microfinance programs". This comparison should show the effects of microloans on the communities to help determine their overall effectiveness—which Morduch (1998) ultimately decides, based on comparisons between communities served and not served by microfinance programs, is seriously limited.

There are some obvious benefits if one looks at the most simplistic data about families "served by the Grameen Bank" (Morduch 1998). Of the households that were eligible for loans and did borrow from Grameen Bank, "62% of [their] school-age sons…are enrolled versus 34% of the sons of eligible households that do not borrow" (Morduch 1998). However, Murdoch (1998) is concerned that this is the result of "selection biases" and insists that more "appropriate comparisons…[do] not yield meaningful increases in per capita consumption [or] education of sons…[or] daughters" despite access to loans from Grameen Bank. This might not be pressing, except that Grameen has claimed to be promoting empowerment and education.

These studies can be difficult to conduct, and microfinance institutions of course want to focus on positive results; finding true information is a lengthy process and of the studies available, many have both results and conclusions that differ. Still, the process of evaluating the data is a necessary one and general conclusions about the effectiveness of microloans can still be drawn. If microfinancing does not truly lead to an increase in income or education for the families that borrow, economists should be focusing their efforts away from microloan programs and towards entirely different programs to aid the poor—or an overhaul of microfinancing programs should be done so that the programs benefit their clients holistically. Microfinancing might be the best solution to poverty if adjustments are made to the regulatory system.

Morduch (1998) is concerned about "mistargeting" done by Grameen Bank and other lenders. Some of the requirements for borrowers seem arbitrary and ineffective: one such restriction is on the amount of land a borrower must have to be eligible—those with large amounts of land are ineligible. However, Morduch (1998) finds no significant difference between many households that are or are not eligible. The ruling for which households are and are not eligible may make the data more difficult to interpret as well since the comparisons are not exact.

There are also repeated concerns about education as a result of microloans—a reasonable issue, since "the education of daughters is highlighted in particular" by microloan programs like those created by Grameen. There seems to be some evidence to support that claim; "55% of borrowers' daughters are enrolled versus 41% for non-borrowers' daughters" (Morduch 1998). When looking at "all children in program areas", however, "there is no obvious success story here" (Morduch 1998). It seems unclear whether microloans overall have a positive effect on communities.

Interestingly, Morduch (1998) concludes that "microfinance programs may make important absolute differences in the lives of borrowers, even if the relative differences are small". He seems divided on the importance and effectiveness of microloans as a whole, and while he acknowledges that they have done some good, he also sees many flaws with the programs. Morduch (1998) might fall on the side of eliminating microfinancing in favor of other programs in the future. He does not clearly take a position on how—or if—microfinancing could change for the better and simply presents relatively discouraging data.

Vonderlack (2001) believes microloans are an important aspect for economic development and empowerment for women, with the condition that impoverished women need savings programs just as much as they need microloans. While the microloans may help these women increase their income, the women need continued help saving and investing their money. There are some “informal mechanisms” for savings and Vonderlack (2001) explains the pros and cons of those existing systems as well as giving input on how “formal mechanisms might learn” to improve.

In surveys of impoverished women, researchers found that women “want low transaction costs and assistance with deposit discipline” (Vonderlack 2001). Transaction costs range from “the opportunity cost of time to make a deposit or withdrawal” to the “indirect cash expenses…needed to open an account” (Vonderlack 2001). If the bank is too far away—making the opportunity cost too high—or is too difficult to begin using, women will keep their savings in cash at home instead of depositing it. This presents challenges, however, since money at home is much easier to access and “poor women must resist demands from children who need clothes [and] husbands who want to drink or gamble” (Vonderlack 2001). Giving women the opportunity to save is a powerful first step towards breaking the cycle of poverty. While many of these families live day to day, a savings fund can allow their children to pursue higher education or get adequate healthcare when needed. It can also allow women taking out microloans to eventually stop using microloan programs and subsist entirely on their own income—even for larger business purchases.

With savings physically removed from the home and kept in a bank, the desire to use that money for small needs is less apparent. There are some strategies that have worked to help women save: “door-to-door deposit collectors, Rotating Savings and Credit Associations, Annual Savings Clubs, and in-kind storage” decrease the cost of saving, provide help with “deposit discipline” and generally increase women’s willingness to save their money (Vonderlack 2001). The savings clubs can, additionally, help women understand their own financial power and newfound autonomy by explaining the importance of savings.

Vonderlack (2001)’s first suggestion, door-to-door deposit collectors, has a history of success in places like Ghana. In Ghana, women “make 30 small deposits per month” to deposit collectors who “visit…daily—often at their doorstep or their market stall” (Vonderlack 2001). This system “almost eliminate[s] transaction costs” and “the presence of the collector may prompt the saver to find a way to save something, even when difficult or inconvenient” (Vonderlack 2001). Many microloan programs already implement similar systems for collecting payments from borrowers—in small villages, it is relatively easy for collectors to go door to door or for the women to meet on a regular basis to repay their loans. This system for savings is very similar, so it does have widespread promise.

The idea of social pressure is also used in microloan organizations to encourage women to pay back their debts. There is an understanding that their peers know if they default—or in this case, if they do not make a deposit of savings. Social pressure can be a positive influence but is sometimes dangerous as women might ignore their own needs and focus on their image. For example, they may put off making an important and urgent purchase for their household in lieu of depositing savings because of the social pressure to save a certain amount. The later description of the Andhra Pradesh crisis—in which many Indian men killed themselves when they were unable to repay their loans—will serve as clear proof of the power of social pressure in these situations. To avoid the potentially damaging influence of guilt and shame, the other suggestions presented by Vonderlack (2001) also encourage women to save through slightly more formal systems using organizations that are not necessarily reliant on community pressure and provide more privacy for women making deposits.

Vonderlack (2001) stresses that savings are essential to women's independence, but that saving can be difficult in societies where women are not often granted autonomy. Thus, these savings programs must focus on anonymity since "family and friends…may assert a claim" on a woman's savings if they know she has money (Vonderlack 2001). Secret savings "might…allow [a woman] to bargain more effectively within the household," giving her more power in decision making as well as more independence if necessary (Vonderlack 2001). While door-to-door deposit collectors have many benefits, one downside is that "anyone can see the collector everyday" (Vonderlack 2001). More formal savings accounts can potentially "be hidden from neighbors and perhaps even from spouses" as long as the account does not "require a male co-signer when a woman opens an account" (Vonderlack 2001). The potential for anonymity is a large benefit to formal, bank-operated systems for savings.

A discussion about the possible models for savings is essential, as "the mere receipt of loans need not empower women financially or socially" and Vonderlack (2001) believes that savings can help create that empowerment. While microloans can help create the opportunity for savings, women—especially impoverished women in male-dominated societies—need help successfully saving and investing their money for the future.

Mayoux (2000) explains that there are “four basic views on the link between micro-finance and women’s empowerment” in the literature: some “essentially optimistic,” others “recognize the limitations…but explains those with poor programme design,” the third group believe microfinance is an “ingredient…[but] empowerment…needs to be addressed by other means,” and the final group sees “micro-finance programmes as a waste of resources”. If microfinance is a waste of resources, it would be essential that the programs end and more efficient ones begin—however, Mayoux (2000) argues that microfinance ought to remain “an integral part of policies,” and while women’s empowerment is not “an automatic outcome” that microfinance is an important part of the process towards empowerment as long as reaching that empowerment is “an integral part of the planning process” and is not ignored by the creators of the programs. Prominent microfinance organizations like Grameen Bank are first and foremost “poverty-targeted…[but also] see themselves as empowerment oriented” (Mayoux 2000).

Mayoux (2000) sees three different paradigms that emerge within institutions concerned with microfinance and gender issues: the “financial self-sustainability paradigm, …[the] poverty alleviation paradigm, …[and the] feminist empowerment paradigm,” which each have their own reasons for and definitions of women’s empowerment.

The financial self-sustainability paradigm focuses on the economic efficacy of microloans and the organizations that run these programs—the organizations must “cover costs” to be worthwhile to begin with (Mayoux 2000). The organizations themselves as well as some gender-equality activist groups see this perspective as fulfilling on its own, as the “high female repayment rates…[and] women’s economic activity to economic growth” is seen as proof in and of itself of empowerment (Mayoux 2000). According to this perspective, the economic gains from microloans will result in women's "well being and social and political empowerment" without any need for additional programming (Mayoux 2000).

The poverty alleviation paradigm focuses on eliminating poverty with the use of "small savings and loan provisions" and it "justifies some level of subsidy for programmes working with particular client groups or in particular contexts" (Mayoux 2000). Within this paradigm, "gender lobbies" encourage programs to focus on women for two reasons: women are more likely to live in poverty, and raising women out of poverty will affect her entire household. In this paradigm, "poverty alleviation and women's empowerment are seen as two sides of the same coin" and microloans, "together with other interventions to improve household well-being" will lead to women's empowerment (Mayoux 2000).

The final paradigm Mayoux (2000) explores is the feminist empowerment paradigm, which primarily focuses on "gender equality and women's human rights". This paradigm has the least focus on microloans—they are seen and "promoted as an entry point in the context of a wider strategy for women's economic and socio-political empowerment" (Mayoux 2000). Microloans, according to this perspective, have their place as a stepping stone towards empowerment but true gender equality and systematic change requires more work.

As many have noted, it is difficult to find and to quantify information on women's empowerment as a result of microfinance programs. In general, empowerment is defined as "women's access to savings and credit giv[ing] them a greater economic role in decision-making" (Mayoux 2000). This increase in economic decision-making "enables women to increase expenditure on the well-being of themselves and their children" and, ideally, even encourages women to have greater "social and political" involvement, to "protect their individual and collective gender interests at the household, community and macro-levels (Mayoux 2000).

Mayoux (2000) advocates powerfully for “complementary services” in microfinance programs that can work alongside microloans to “provide adequate support to women and to engage men in questioning and changing gender inequality”. Support groups for women receiving loans can provide education and “training on…women’s legal rights and other issues” to further empowerment (Mayoux 2000). The broader “empowerment approach” as opposed to the narrow services provided by organizations at this time “can increase financial sustainability and poverty alleviation” for women (Mayoux 2000).

Banerjee et al (2015a) consider the effectiveness of microloans in their paper “Do Credit Constraints Limit Entrepreneurship? Heterogeneity in the Returns to Microfinance” by evaluating the success of borrowers in India years after microcredit was introduced. The area of India where these loans were introduced—Hyderabad—is an urban location which differentiates it from other studies. Additionally, this survey of Hyderabad is interesting because microcredit was not available to everyone in the area and Banerjee et al (2015a) were able to compare neighborhoods where microloans were available versus areas where they were not.

The residents in Hyderabad were categorized into two groups: gung-ho entrepreneurs or GEs and reluctant entrepreneurs or REs. The gung-ho entrepreneurs were labeled as such because they had already engaged in some type of entrepreneurship even before microloans were available to them—they could use microloans to help build their small businesses, but they were able to start them without additional help. Reluctant entrepreneurs, on the other hand, only began to show interest in entrepreneurship after they were offered microloans. REs had no business experience before engaging in microfinancing.

This difference makes Banerjee et al (2015a)'s study particularly interesting. Microloans ought to help people out of poverty, which is not achieved simply by starting a business. Ideally, entrepreneurs should be able to grow and expand their small businesses and increase their profits over time—by evaluating the success of microloans to individuals who already have a business, the role of microloans is expanded.

Banerjee et al (2015a) predicted that microfinancing would have more of an effect on GEs and that REs would be more likely to use microloans to pay off other loans. These are both reasonable assumptions: the GEs already have business experience and have already put in the costs associated with breaking into a market. REs might reasonably be more likely to have outstanding loans that they wish to pay off before beginning a new endeavor.

In general, when looking at everyone who participated in microfinancing, Banerjee et al (2015a) found that microfinancing had a modest impact on neighborhood six years after the programs were introduced. They further found "that microfinance access does promote business growth" as there were more—and stronger—businesses in neighborhoods with microfinance access as compared to those without the programs (Banerjee et al 2015a).

Delving further into the data, Banerjee et al can conclude that "most of the business impacts are driven almost entirely by the GEs" and not by the REs, or new entrepreneurs. They found that there was "substantial" growth in the businesses owned by GEs and "positive and significant effects on per-capita consumption" for GEs, while the effects are "small in magnitude" for everyone else (Banerjee et al 2015a). GEs also significantly increased their informal borrowing while others did not. Figure 2 below shows the gap in wealth accumulated between "seasoned" and "novice" participants in the study.

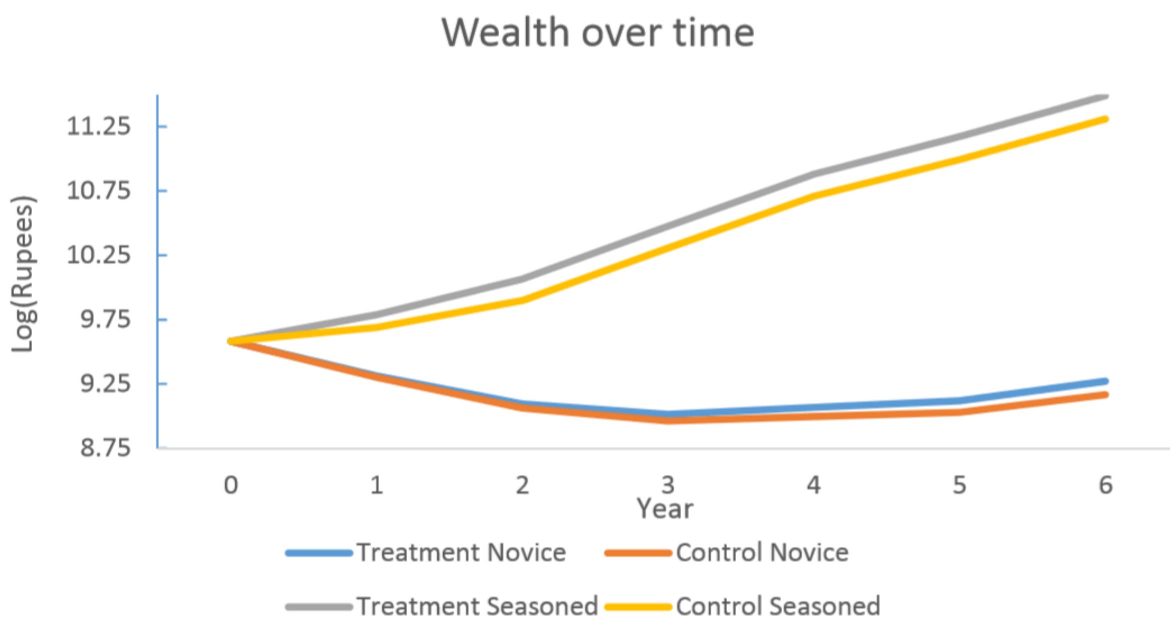

Figure 2: Wealth over time (Banerjee et al 2015a)

Banerjee et al (2015a) bring up a related issue: that of defaulting on loans. On one hand, increased accessibility of loans may make it easier for borrowers to default. However, "the social aspects built into microfinance itself can help to foster enhanced risk-sharing relationships between borrowers (Banerjee et al 2015a). Again, Banerjee et al (2015a) did find that the social aspect was more important and successful in regard to GEs who felt more connected to their support system. Still, REs also felt some connection to their microfinance network—albeit not as strong.

There was one more element that made Banerjee et al (2015a)'s data more interesting: two years before the survey was done, all microfinance programs in the area were stopped. Despite that, microfinance still had an impact on entrepreneurship. Banerjee et al (2015a) conclude that microfinance "increas[es] entrepreneurship on the *intensive* margin: for those individuals with an existing business before the entry of microfinance". They also concluded that "while microfinance may reduce borrowing costs, overall demand for credit may change very little for some groups" and that while microfinancing can certainly be successful, "it takes time for these benefits to accumulate" and the benefits are unevenly spread between REs and GEs (Banerjee et al 2015a).

Bruno Crepon et al (2014) also analyzed the effects of microloans in a paper titled "Estimating the impact of microcredit on those who take it up: Evidence from a randomized experiment in Morocco". Their work is based on data collected during and after a microfinance program implemented in rural Morocco in 2006 by Al Amana, a Moroccan-based microfinance institution that currently has a partnership with Grameen bank.

To begin, Crepon et al (2014) cite previous studies that show microfinance programs increase "investment in self-employment activities, but no [have] no significant impact on overall consumption—or on overall income". They then explain this specific experiment: villages were selected given a certain criterion and then paired with very similar but removed villages nearby. In total, 81 pairs were made. One village in "each pair…was randomly assigned to treatment, the other to control" (Crepon et al 2014). In the treatment villages, the only possible way to receive loans or any type of credit was through the bank.

In treatment villages, the average “take-up of microfinance is only 13% of the population” and “half the clients [are] dropping out after a year” (Crepon et al 2014). Given the statistics on the power of microloans, more citizens should certainly be applying and yet they do not. Crepon et al (2014) give two possible reasons why: firstly, the “utility gain” might be low and lenders are finding entrepreneurship to be more stressful than it is worth. Secondly, it is possible that there is “substantial heterogeneity in how profitable microfinance investments are” (Crepon et al 2014).

Some deeper analysis shows that “a substantial minority of households (about 25% of those who take up microcredit)” see a “negative…impact on profit” (Crepon et al 2014). Others in the community notice when microloans fail a family and might likely be risk averse and unwilling to make a gamble. Crepon et al (2014) conclude that while microcredit is “a powerful financial instrument for the poor” it does not necessarily “fuel an exit from poverty…in the medium run”.

In a paper titled “A multifaceted program causes lasting progress for the very poor: Evidence from six countries”, Banerjee et al (2015b) discuss the efficacy of a program that “provides a productive asset grant, training and support, life skills coaching, temporary cash consumption support, and typically access to savings accounts and health information or services”. The program was in no way connected to microloans or microfinancing and is thus an interesting and necessary comparable technique for alleviating poverty. It was an extremely complex program as its exact specifications were tailored to suit the needs and the customs of each of the six areas: Ethiopia, Ghana, Honduras, India, Pakistan, and Peru. As a whole, the project reached 11,000 households.

All of the villages were chosen because of the extreme level of poverty of the residents. The goal was to attempt a solution that would help the poorest households in both the short and long run; the programs were designed with sustainability in mind. In these villages, not everyone was given access to the program. Only 50 percent of eligible households were actually able to participate so that the results could be measured against a control group. A survey was conducted before the project began. Two later surveys were also conducted—one survey two years after the program began, marking the end of the program, and another a year after the second survey. The results from the final survey can be seen below in Figure 3. These surveys "measure…consumption, food security, productive and household assets, financial inclusion, time use, income and revenues, physical health, mental health, political involvement, and women's empowerment" (Banerjee et al 2015b).

The support provided to the participants was the same in every country and included a "productive asset transfer" or a one-time 'gift' of an asset as well as a "regular transfer of food or cash for a few months to a year" which was supplemented by training and education programs as well as "access to a savings account and in some instances…mandatory savings" (Banerjeet et al 2015b). The type of productive asset and the training varied from country to country.

This was, clearly, a much more costly endeavor than any microfinance program would be. However, Banerjeet et al (2015b) concluded that "the estimated benefits [were] higher than the costs in five out of six sites" and they are hopeful that changes and improvements could be made to the programs to make them even more "sustainable and cost effective". The results from this project were encouraging, as there were clear results in the short run.

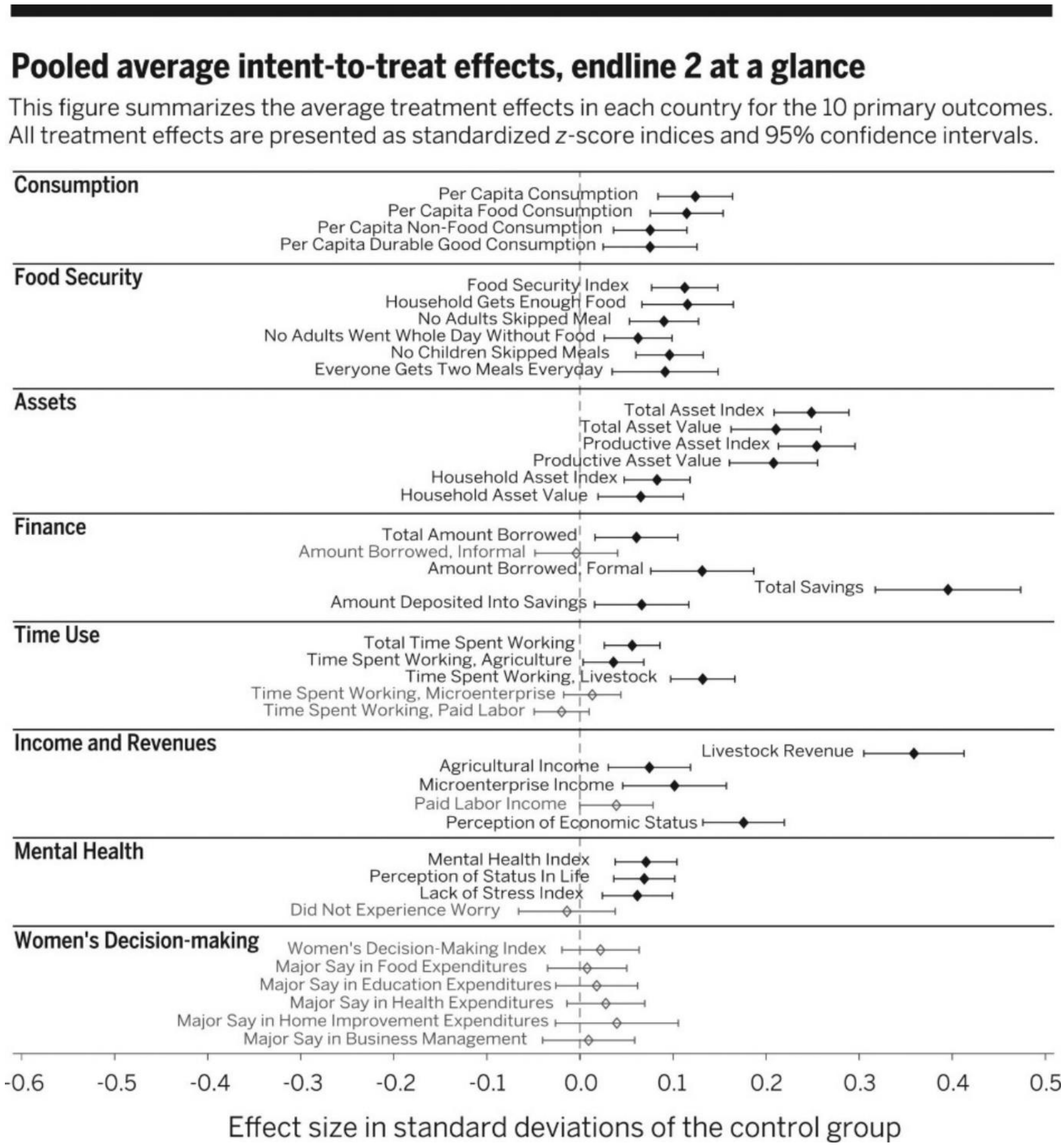

Figure 3: Pooled average intent-to-treat effects, endline 2 at a glance (Banerjeet et al 2015b)

In order to remain efficient and competitive, Delgado et al (2013) suggest that microfinance institutions ought to broaden their scope. In their paper "Should all microfinance institutions mobilize microsavings? Evidence from economies of scope" Delgado et al (2014) recognize that Microfinance Institutions (MFIs) have "evolv[ed] away from [their] original focus on microcredit" and have grown to "offer a variety of loan products, as well as microsavings accounts, microinsurance, and payment facilities" for their clients. Providing these extra services comes at a cost to MFIs but is certainly in line with what clients desire.

Delgado et al (2013) introduce the idea of "scope economies of the joint production of microloans and microdeposits". Economies of scope is a theory about decreasing a company's costs by producing and selling more varieties of goods or services. The theory is that the organization can reduce their own risk while also reaching a broader network of potential customers. This means Delgado et al (2013) attempt to evaluate whether MFIs can actually save money by bundling the services that they offer. Delgado et al (2014) "focus on the scope economies between microloans and microsavings" and develop their own model to determine whether the "more efficient MFIs—those offering both microloans and microdeposits—will survive" and outperform the current, more traditional MFIs that focus entirely on loans.

In Figure 4 below, Delgado et al (2014) present a "3-dimensional plot of the joint density of scope economies and region" concluding that the "scope estimates are statistically significant in each region". From left to right, these regions are Eastern Europe and Central Asia (ECA), South East Asia (SEA), Latin America (LA), Middle East and Central Africa (MENA), and Sub-Saharan Africa (SSA). SEA and SSA have "the highest scope economies" and "there are no MFIs with diseconomies of scope in those regions (Delgado et al 2014). The other regions do have "some observations with diseconomies of scope" and in general have economies of scope “of smaller magnitude” (Delgado et al 2014). The plan to diversity offerings from microfinance institutions would, therefore, be effective and worth attempting in all of these areas.

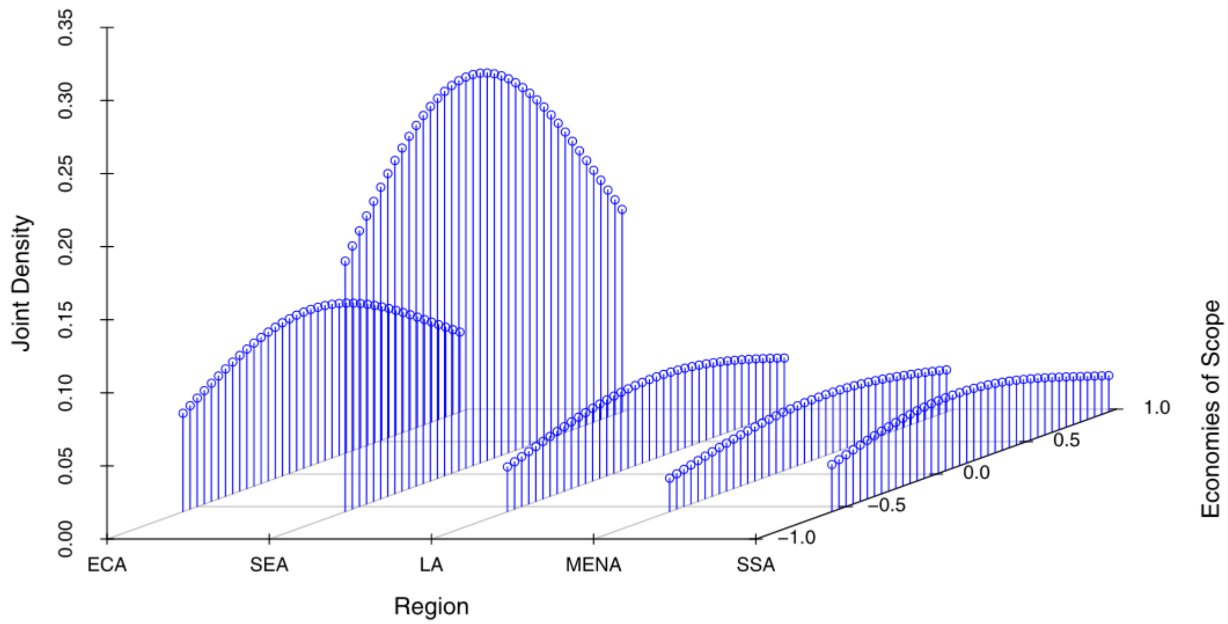

Figure 4: Joint density plots for scope economies based on region (Delgado et al 2014)

Within geographic regions, Delgado et al (2014) further found that there are higher scope economies in village banks as opposed to banks in a more urban setting. They postulate that this is because the personal relationships and the tight-knit community that surrounds a village bank lends it more authority and clients are more likely to use and trust their village bank, even with new services they haven’t yet tried before.

Delgado et al (2014)'s model seems to "justif[y] theoretically" the growth of MFIs to "offer savings alongside credit". Still, Delgado et al (2014) is quick to point out that this is a preliminary model and there is still much work that can be done in evaluating the future of MFIs—but they still fall in favor of "MFIs mobilizing local savings [to] provide much needed services for the poor [that] may also have cost advantages" for the MFIs themselves.

Periods of economic uncertainty and even crisis will undoubtable occur and influence MFIs at some point. In his paper "Microfinance in Times of Crisis: The Effects of Competition, Rising Indebtedness, and Economic Crisis on Repayment Behavior", Ulrike Vogelgesang (2003) inspects the issues that "Caja Los Andes, a Bolivian microlender" has faced in terms of repayments for microloans in the face of "recent economic crisis" in the areas it serves.

The Bolivian economy has, since 1998, "slowed down with negative growth" while, at the same time, microfinance institutions and "consumer credit companies" have lent significant amounts of money to many entrepreneurs; the local "microfinance market is close to saturation" and borrowers can default on loans from one organization without being necessarily penalized by another—especially since another small organization might not know (Vogelgesang 2003).

Late repayments have been steadily increasing and MFIs "need to develop new strategies to maintain their good performance…[MFIs have to] prove…that [they] can maintain high repayment incentives even in the face of increasing saturation and competition" (Vogelgesang 2003). The increased competition is a double-edged sword for both the MFIs and for the borrowers.

Vogelgesang (2003) offers four factors that encourage repayment of loans in a timely manner: collateral that can be confiscated, repercussions to the client's reputation that will make future loans difficult, improving loan conditions after repayments, and, lastly, a high client income will of course "enable him to repay on time"—this may mean guaranteeing clients who want to start a business have other access to income in case the business fails (Vogelgesang 2003). Some of these factors are easier for a bank to influence while others require changes to an institution.

One of the appealing and unique aspects of microloans in general is that they are given to clients with no credit history, no collateral and no way of obtaining either. Asking for collateral defeats some of the purpose that microloans serve in rural, impoverished communities. MFIs can most easily offer incentives for timely repayment, giving clients "preferred client status" when they make timely repayments (Vogelgesang 2003).

This preferred client status can come with better lending conditions in the future as long as repayments continue to be timely. Either in addition or as a separate program, MFIs can also force clients to pay penalty fees on repayments that take too long—however, this may just cause borrowers to default or pay back one MFI's loans with a loan from a different MFI, which is not setting the clients up for success. Any attempts to incentivize repayments and disincentivize defaults must by handled more delicately than would be in developed countries with large banks.

Vogelgesang (2003) concludes that there are "two opposing effects" of high competition and supply in the microloan business. More availability of microloans can make clients feel pressured to take out more loans than they can possibly repay, but the competitive environment can also put more pressure on clients to repay in a timely manner as they are "aware of the importance of timely repayment in an environment where microloans are part of the day-to-day business” (Vogelgesang 2003). Both effects be dangerous for clients and, therefore, dangerous for the microloan organizations as well.

Vogelgesang (2003) goes on the recommend that MFIs take precautionary measures to ensure the success of their clients—well informed, financially stable clients who are incentivized to follow their agreements are much more likely to repay their loans. This is easier said than done, and Vogelgesang (2003) does not offer an in depth discussion on how MFIs can help ensure the financial success of their clients.

The large majority of the data on microloans in developing countries paints a very positive picture: although microloans are not a perfect solution to the issue of cyclical poverty, they do tend to improve the general economic status of those who take them out. Philip Mader (2013) in his article “Rise and Fall of Microfinance in India: The Andhra Pradesh Crisis in Perspective” presents an alternative view of microloans that is much more troubling.

The creation of microfinance in India began in the late 1960s and early 1970s when India’s “largest commercial banks were nationalized and the state adopted a new lending focus on rural areas” (Mader 2013). The Integrated Rural Development Program (IRDP) and the “state sponsored Self-Help Group (SHG)” also provided some credit to rural, impoverished citizens (Mader 2013). Clearly, India was intent on joining the MFI business quickly, as they had found microfinance later than their neighboring countries.

Rural farmers provided a perfect market for microloans and by 2003, “82% of farmer households were indebted, compared with 48.6% Indian average” (Mader 2013). At that time, private MFIs and many other organizations served not to alleviate poverty but to perpetuate it—

those in debt found themselves in an inescapable cycle of indebtedness as they took out more loans to repay those that were coming due.

This all led to Mader (2013)'s aforementioned Andhra Pradesh crisis. In 2010, many borrowers in Andhra Pradesh were reported to have committed suicide as a result of "coercive repayment techniques" and "rising default rates" (Mader 2013). There were repeated allegations of "MFIs' agents pressing clients to commit suicide so that life insurances could repay their loans" or, alternatively, "kidnapping children and the forced prostitution of young girls to coerce their parents into repayment" of loans that were long overdue (Mader 2013). Regulations on MFIs might have been hard to enforce given their spread out nature, but at the time there were no existing regulations that could have prevented such behavior, no one the clients could go to report the MFI agents' tactics.

The government reported "30 suicides in 45 days" and worked to quickly protect borrowers from these tactics (Mader 2013). This meant "prohibit[ing] many actions that MFIs previously considered perfectly normal, like door-to-door collections or pressuring borrowers by following them" (Mader 2013). Those techniques were used in some of the earliest MFIs and are certainly still used by other organizations worldwide, especially in the smallest communities when people have the most overlap with their neighbors. Those tasked with retrieving late payments walk a fine line between pushy and outright intimidating. While kidnapping and encouraging clients to commit suicide certainly crosses that line, but other behaviors are less clearly indecent.

Other literature shows that some amount of peer pressure can be useful for borrowers—something like a regular meeting with others who have taken out loans along with agents from the MFI. That peer pressure, in this case, went too far and resulted in serious tragedy—this is a case where microfinance's reputation as a boon to the poor was damaged forever.

Although some MFIs attempted to contest the link between microloan debt and suicide, the sheer number of cases makes the "fact that a number of clients had taken their lives due to debt could no longer be denied" (Mader 2013). Across the world, microfinancing can be "positively associated…with male, but not female, suicide (significant to 90%)" (Mader 2013). If the risk to borrowers is not only default but death, it is no wonder that the industry saw such a decline after the Andhra Pradesh crisis.

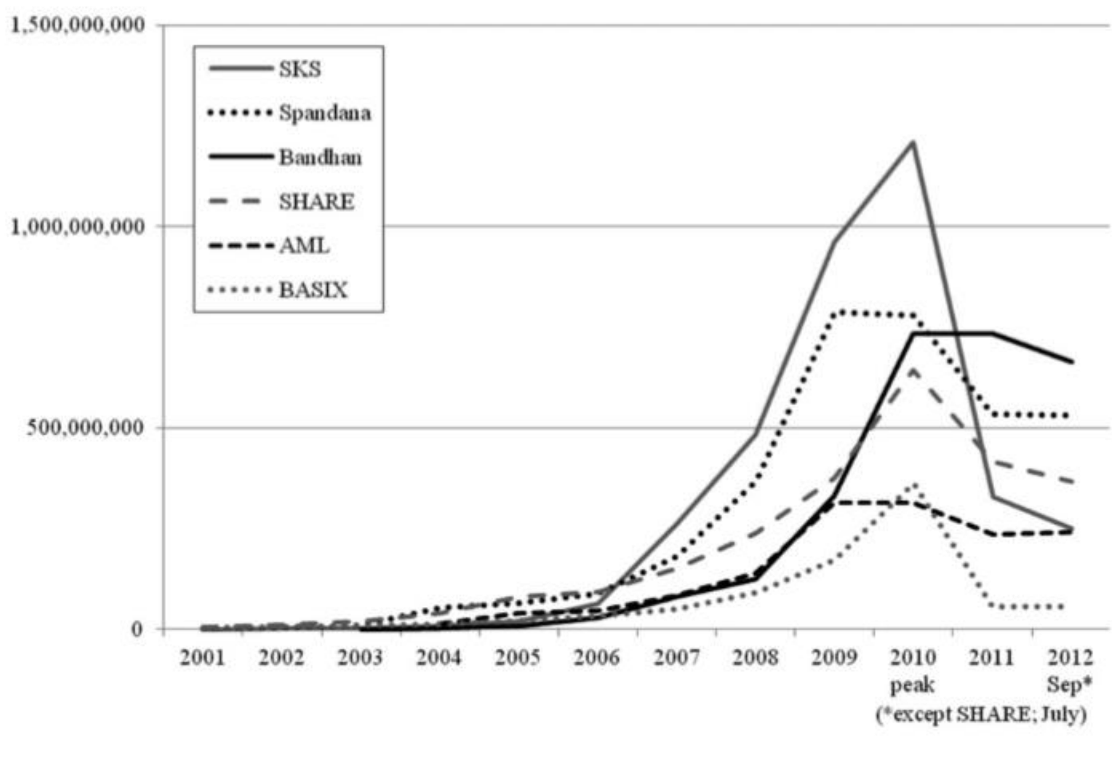

Figure 5: Gross loan portfolios (USD) of India's six largest MFIs (Mader 2013)

Figure 5 above shows the “loan portfolios of the six largest MFIs” all of which peaked right around the time of the crisis and then all fell following the crisis. As the graph shows, each organization had slightly different reactions in how quickly they fell and how they began to recover approximately two years later.

Mader (2013) concludes that it is unclear “that the demise of the Andhra/Indian microfinance sector has harmed India’s poor significantly” and that it is possible the “Indian MFI sector since the late 1990s may have been a dead end social policy” that was rightfully ended when the debt bubble popped. Dead end social policy is a strong stance to take on microloans, and Mader (2013) doesn’t fully believe that claim—but if more were harmed than were aided by microfinancing, serious changes need to be made or the programs should indeed die out. As is key with any financial policy, it is difficult to find a balance where microloans are able to aide the poor but are regulated enough to stop another crisis from happening.

Arvind Ashta et al (2011) in a paper titled “Does Microfinance Cause or Reduce Suicides? Policy recommendations for reducing borrower stress” offer potential solutions moving forward to prevent the occurrence of another crisis like that in Andhra Paresh. As concluded by Mader (2013), Ashta et al (2011) also found a link between the growth of microfinancing and male suicides—but not female suicides.

Ashta et al (2011) writes that there is clearly some liability on the part of MFIs for the safety of their clients. If that is true, then MFIs must bear some responsibility for the suicides in Andhra Paresh and commit themselves to reducing the pressure on clients. Ashta et al (2011) also argues that while studies have looked at the relationship between microloans and “factors such as GDP per capita, unemployment, etc…but not…on the impact of microfinance and its relationship with…happiness factors". Other literature such as Crepon et al (2014) has similarly suggested that microloans and the burden of entrepreneurship is often too much to bear for impoverished citizens with no business experience.

To improve the health and happiness of borrowers, Ashta et al (2011) recommend that "measures need to be taken to provide support" for borrowers, but particularly for men who seem to be more affected by the possibility of defaulting. Overall, Ashta et al (2011)'s recommendation is for MFIs and regulators to keep "the human angle at the centre of the focus" for all programs, because the Andhra Paresh crisis could be "the tip of the iceberg" if changes are not made.

Analysis: How to improve microloans for the future

From the literature, microloans are an effective means of providing credit to impoverished borrowers—especially those in rural areas. The majority of the data shows that microloans encourage entrepreneurship, help small businesses grow, and improve the economic state of neighborhoods. However, MFIs have room for improvement and could be made more effective by addressing the ethical concerns raised in the philosophical literature.

One of the issues with microloans is that they provide unequal results for different populations. These unequal results are the result of a variety of borrower and community characteristics, some of which are readily addressed by supplemental training programs. For example, Banerjee et al (2015a) finds that borrowers with prior entrepreneurial experience were much more likely to see results from microloans. However, reluctant entrepreneurs are the ones who most need the financial boost provided by microloans and MFIs should attempt to help those borrowers succeed. The borrower's success is in the best interest of the MFIs as well—since the institutions exist within small communities, word spreads quickly and one family's failure to make a profit often discourages others from taking out loans.

To bring reluctant entrepreneurs up to the same level as the gung-ho entrepreneurs, they need both training and support. MFIs have the ability to create these programs; some already do have support groups for female entrepreneurs. This type of care should be taken with all borrowers world-wide—although the specific type of counseling needed might vary, there are basic courses that could be offered prior to taking out a loan.

Would-be entrepreneurs could be required to take a course on money management or other basic business skills before receiving their loan. Additionally, a support group could be created for those who have taken out loans for vaguely similar endeavors, allowing for additional training that clients could receive on a regular basis—perhaps after they make a payment.

Other potential changes include those suggested by Vogelgesang (2003)—MFIs have the ability to incentivize repayments by offering lower rates or other deals for clients who regularly make their payments on time. Programs like support groups and outside training would help ensure the success of clients, helping to guarantee they have the income to make their payments.

Although Vogelgesang (2003)'s point about collateral to guarantee the financial situation of borrowers is legitimate, it is contrary to the idea of microloans being accessible to all. It is more prudent to search for ways that encourage success instead of attempting to guarantee that borrowers are already primed for success before they take out the loan. The latter would certainly be less risky, but would not contribute to helping the most impoverished, those who need the support of microloans the very most.

Continued opportunities for training and community support as well as educational sessions before the loan is taken out could also help prevent a crisis like Andhra Peresh. Firstly, the training before the loan could help steer borrowers away from mistakes that would cause a cycle of indebtedness. Secondly, support systems could help relieve stress. If necessary, the support systems created by the MFIs could even be used to stand up to MFIs that engage in manipulative and dangerous behavior to encourage repayments.

Some of the most positive results in the literature came not from microfinancing programs, but from the programs implemented by Banerjee et al (2015b) in their six different countries worldwide. Their programs were effective for many reasons: likely the education and support system provided was extremely beneficial, but the combination of the many elements of the program created a very successful model that MFIs can look to.

Participants in the program also had access to healthcare and were simply given some resources throughout the first year without any expectation of repayment on the part of the program. Although the effects of the programs have not been studied as far into the future as some microloan initiatives have been, the initial results are extremely positive.

Combining Banerjee et al (2015b)'s programs with microfinancing could have many benefits. If families were given some assets during their first year, they could direct the money from their loans towards investments in their long term financial wellbeing. Additionally, the importance of education and continued support has already been discussed at length.

Microloans—and microsavings—have a place in this program. Banerjee et al (2015b) wrote that the most important improvement to this project for future iterations would be to make it more cost effective. After the first asset is donated to the household, participants in the program also received somewhat regular installments of cash or another form of asset—these gifts of money could easily be replaced with microloans, giving participants the opportunity to participate and learn more about banking and their personal finances.

Loans instead of gifts of money introduce more personal accountability into the program and microfinancing and microsaving could be used by the participants long after the other aspects of the program have ended if needed—for example, the program could help someone become an entrepreneur and microloans could later help them grow their business after they have the experience of a gung-ho entrepreneur.

Additionally, microloans benefit the program itself making it—potentially—significantly more cost effective. Even if the interest rate on the loans is even lower than the average microloan, there is still a return that did not exist previously in the program. Integrating microloans into the program used by Banerjee et al (2015b) allows microloans to work at their best potential while making the program more practical for those running and investing in it.

Analysis: Why microloans need to improve

Economics is not known for being a discipline highly concerned with the ethics of its models. The primary motivation for microloans is either to make a profit, in the cases of banks that are for profit, or at the very least to see returns in the community. There is nothing wrong with those goals; everyone wants microloans to have a positive impact on the community. However, aid organizations have a stronger focus on empowerment in addition to the economic efficacy of the programs.

What is empowerment for women, particularly these women in developing countries? Mayoux (2000) and Banerjee et al (2015b) both discuss the complex nature of "empowerment". Central to women's empowerment is women's autonomy within the household and the community. Banerjee et al (2015b) measured women's decision-making to track their power in the household—did women get to decide how money was allocated? Were they in control of any of the finances? To measure women's power in the community, Mayoux (2000) recommended evaluated women's social and political involvement. Did women participate in community events? In the political process? This type of surveying is more difficult than simply uncovering whether or not loans have been repaid to the bank; default rates are a much easier measure of success.

However, many microfinance organizations like Grameen Bank heavily advertise their focus on women's empowerment and they are explicitly proud of the work they do to help women out of poverty. If this is true, then detailed surveys about the impact of microloans on women's empowerment should not be a burden. Rather, they should be a given and the results of those surveys should be given equal or greater importance than the data on repayment rates and loan defaults.

Referring back to Mayoux's (2000) three paradigms on microloans and gender issues, it is easy to see the difference versions of success. Most economists would be fully comfortable following the financial self-sustainability paradigm, believing that economic empowerment will naturally lead to social and political empowerment without additional programming. This allows banks like Grameen to call themselves "empowerment oriented", as they truly believe the economic success of women—as measured by repayment/default rates—is "empowerment" (Mayoux 2000).

The poverty alleviation paradigm and the feminist empowerment paradigm both view microloans as an important—and perhaps even essential—element of the fight for empowerment, but not as the sole program that will lead to gender equality and poverty alleviation. The poverty alleviation paradigm encourages other programming for the household that can help women improve their own and their family's quality of life—in some cases, that might require subsidies when dealing with cases of extreme poverty and/or gender imbalance. The feminist empowerment paradigm advocates for continuing education for women. Their economic success means little if they cannot break out of the strict gender roles that dominate their cultures—Vonderlack (2001) pointed out that women often feel they have to hide their money from their husbands or other male family members that feel entitled to their earnings.

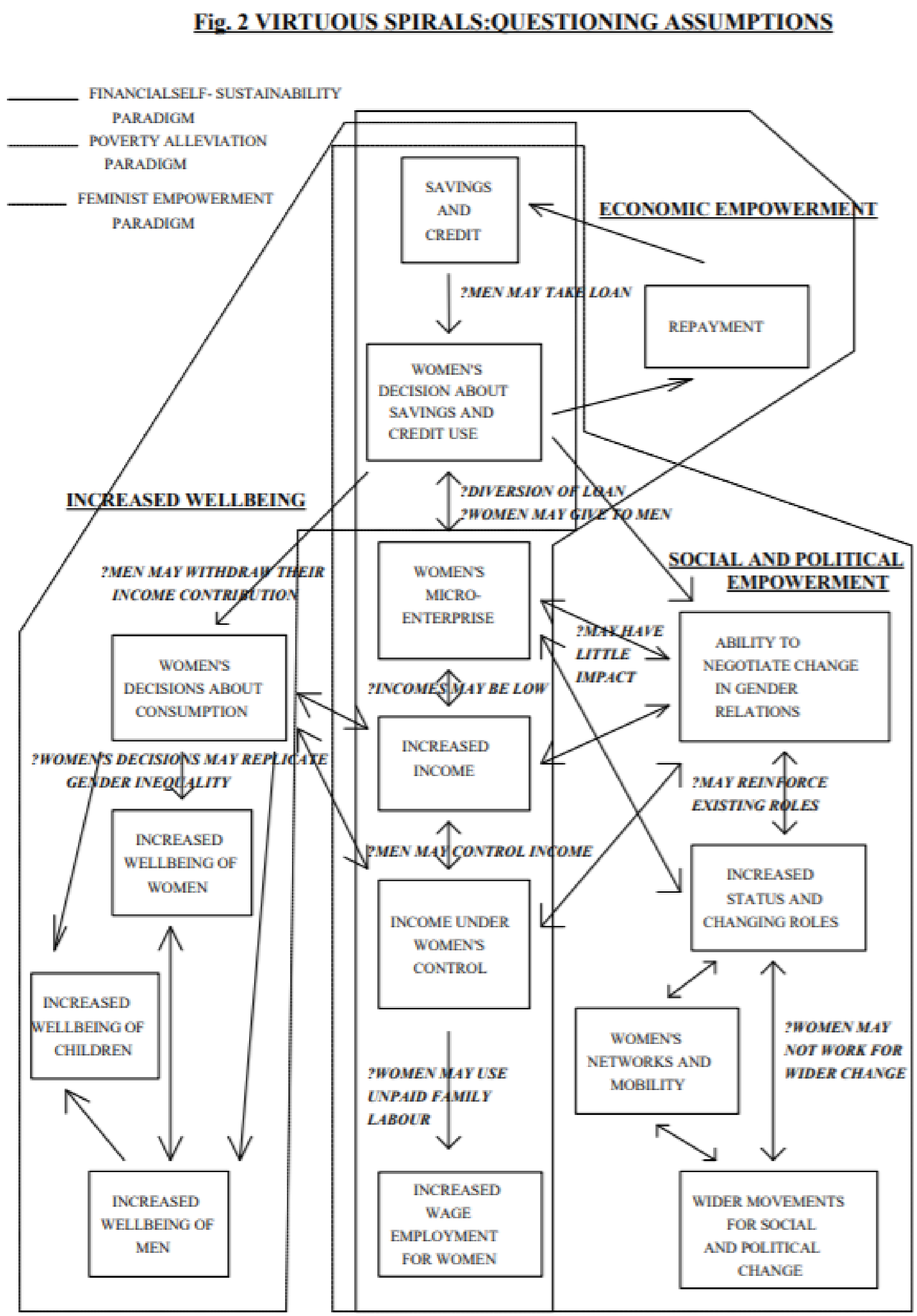

Figure 6: Virtuous Spirals: Questioning Assumptions (Mayoux 2000)

In Figure 6, Mayoux (2000) visually maps out her definition of empowerment, which has three parts: economic empowerment, increased well-being, and social and political empowerment. Figure 6 tells the story of how each element of empowerment is connected. Economic empowerment, as a result of microloans, allows women to accumulate savings which leads to a "greater economic role in decision making" (Mayoux 2000). In turn, "when women control decisions regarding credit and savings, they will optimize their own and the household's welfare" (Mayoux 2000).

This idea, that well-being will "'trickle down and out'" as a result of increased earnings, is why believers in the financial self-sustainability paradigm are comfortable ending their involvement in empowerment with microloans alone. However, earnings and savings alone do not necessarily lead to an increased status for women and their ability to participate more in the household decision making process. The poverty alleviation and the feminist empowerment paradigm thus advocate for "welfare interventions" like "nutrition, health and literacy campaigns to further decrease vulnerability and improve women's skills" (Mayoux 2000). Providing educational programming allows women to make that step from economic success to empowerment within their households. Increased decision-making power then leads to improved well-being as well as greater political and social capital.

Mayoux (2000) additionally provides a framework for empowerment: empowerment means that there must be "power within, power to, power with, [and] power over". Power within refers to allowing women to "articulate their own aspirations," giving women the voice to define their own struggles, solutions, and goals. Power to relates to the educational programming and other training that gives women the "necessary skills and access" to work towards their goals. Power with unites women so they can work towards "collective interests". It also unites women with men’s organizations to create systemic change. Power over is the power to change the structures that stop them from achieving their goals. These different types of power cannot be realized through just microloans, but they are key to creating successful female entrepreneurs—organizations that want to support women’s empowerment in developing areas should be working to help women actualize these powers.

One microfinance organization that has a clear plan for women’s empowerment that goes beyond providing services for loans and savings is SEWA Bharat, the All India Federation of Self-Employed Women’s Association. The Self-Employed Women’s Association includes the SEWA Bank, which provides microloans and financial services to help women “save, invest, and protect their earnings” (“Community Led Microfinance”).

SEWA Bharat also provides three services “for women’s financial inclusion and independence,” which are self help groups, thrift and credit cooperatives, and the business correspondent model. The self help groups meet monthly and provide support for the women involved in SEWA Bharat. The thrift and credit cooperatives “are independently registered institution that are self-managed and run by women at the grassroots level” (“Community Led Microfinance”). This system gives women a way to realize their ‘power within’ because each cooperative can focus on its own community-specific goals. It also gives ‘power with’ by uniting women in similar systems so they can tackle systemic issues together.

Finally, the business correspondent model provides “door-to-door services on behalf of the State Bank of India…[and] provide[s] financial services and information to their communities” (“Community Led Microfinance”). This keeps women and their earnings safe—the door-to-door services are provided by local women who are partnered with the State Bank, which provides jobs in the local communities for those women and gives other women the ability to put there money into a trustworthy, official institution. The business correspondent model also provides “financial literacy training” which, since the 1970s, has “allowed women to invest and diversity their businesses, invest in their children’s education, and build a more secure financial future to protect against economic shocks and health emergencies” (“Community Led Microfinance”).

SEWA is also working towards “bridging the digital and financial divide” because banking has become so technologically-driven. They have begun working toward providing “digital financial services to women in the rural and low income communities” so that the rural population is up to date (“Community Led Microfinance”). SEWA Bharat is a microloan program first and foremost, but provides all the additional services needed for women to take advantage of the opportunities provided by the loans and move toward complete empowerment.

This financial education aspect of SEWA’s program solves Banerjee et al (2015a)’s concern about only ‘gung-ho entrepreneurs’, those with business experience, profiting from microloans. According to Banerjee et al (2015a)’s findings, the women who attempted to become self-employed without any business know-how would not significantly improve their financial wellbeing. Even if microloan organizations do not claim to care specifically about women’s empowerment, they do want to ensure economic success to the best of their abilities. Women will prosper if given the tools to do so, even the so-called ‘reluctant entrepreneurs’ with no previous experience who make up the majority of borrowers,

The nature of SEWA as an entirely women-founded, women-led organization is important: like with the thrift and credit cooperatives, but on a larger scale, the organization as a whole is in tune with the desires, needs, and goals of women. It does not exist for itself, as other microfinance institutions might, and it reaps no rewards by bringing in more borrowers. The entire mission of the program is centered around serving the women who borrow.

Conclusion

Microloans are an integral part of creating women's empowerment. However, they cannot exist or be evaluated in a vacuum. Creating economic empowerment for women in developing countries is a noble goal—and one that microloans can, ultimately, reach independently. However, that economic empowerment will not 'trickle down' to create social and political empowerment for women unless it is accompanied by education.

Power for women in developing countries comes from more than financial gain; women who take out microloans will thrive if given additional education about how to use, save, and invest their money. Additionally, microloans by no means guarantee 'empowerment' unless women are also given support so that they can participate in decision making in their households and greater communities. Microloan programs and organizations have an obligation to their clients—especially if they claim to care about empowerment. They ought to be concerned with making women successful not only in the short run when it comes to either repaying or defaulting on loans, but for years to come as well. The best way to ensure economic success while also encouraging empowerment is to accompany microloans with support groups for the women who borrow as well as education on financial and business matters.

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