

Microlending in the Third World

Does It Work?

Caleb Childers

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George Young, Ph.D.
Thesis Chair

Andrew T. Light, Ph.D.
Committee Member

Robert Van Engen, Ph.D.
Committee Member

Brenda Ayres, Ph.D.
Honors Director

Date

Abstract

Microlending programs have recently been touted as a way to increase business development, equality, and income in impoverished nation (Yunus & Weber, 2007; Idris & Agbim, 2015); this confidence, however, may be misplaced. Research from inside these Third World nations is challenging the traditional thinking about what helps the poor succeed in other countries and how we can help; these studies call into question the efficacy of microlending and similar programs (Idris & Agbim, 2015; Banerjee et al., 2014; Yang & Stanley, 2012). In this paper, the effects of microloans in the Third World on income growth will be accessed along business landscape and women's equality.

Microlending in the Third World: Does It Work?

In recent decades, few concepts have shaken up the financial world like microloans. These loans have been hailed for spurring business development in areas of economic depression, increasing incomes of individuals and families, and reducing gender inequality (Yunus & Weber, 2007, pp. 245-6). In fact, these social and responsible effects are why many non-governmental organizations, nonprofits, and social businesses have developed microlending programs and perpetuate their use in the Third World. Few disagree with the goals of these programs, as most are created and kept in place as a means of helping Third-World individuals start their own self-sustaining businesses and improve their quality of life. Many see these microloans as a “tipping point” that could propel small economies into higher GDP growth that will afford them some of the benefits attached (Yunus & Jolis, 1999, pp. 149-150). But despite the popularity of the microloan today, its use has been short and its effects on economies and individuals are not yet clear.

Modern microlending is a relatively recent phenomenon thought to be used in 1976 at the earliest when Muhammad Yunus, founder of the Grameen Bank, issued his first microloan (History, n.d.). Microlending has gained popularity over the years, with a great number of microfinance institutions (MFI's) popping up all over the world. However, research on the effects of microlending has produced mixed conclusions. While some studies show an enormous increase in quality of life measures in areas concerned, others observed no effect at all. These varied findings have called into question the general opinion that microloans are good for Third World economies and are a viable way to increase their GDP, reduce gender inequality, and raise per capita income.

Because these programs are usually administered by organizations seeking to help those in the Third World, they must know that their funds are being spent on a program that is actually having the benefits that they hope it will have.

Need of the Third World

The reason that these microloan programs have been so readily accepted among agents of social change is that developing countries, more so than any other areas, have acute issues with quality of life metrics. Sub-Saharan Africa, Latin America, and parts of Asia have been areas of historic economic depression (“State of the Poor,” n.d). These areas have been plagued by low national GDP, low workers’ wages, and an even worse quality of life for women (Drolet, 2010, p. 630; Buera et al., 2010, p. 3). These low metrics contribute to problems like malnutrition, poor infrastructure, uneducated populations, and other issues (Calton et al., 2013). These issues persist, and microlending has been utilized as a method of change to combat these widespread issues.

Microloans are designed to address the needs of the Third World in many ways, including location, cost, and terms. Microloans are offered in locations that are accessible to the individuals who need them. Oftentimes, these people do not have access to transportation, or the cost of traveling could be crippling to them when they are already in need of money. The interest cost of a microloan administered from a reputable nonprofit organization is usually more reasonable than the bank alternatives available to that individual. Lastly, the terms of microloans are often suited to the borrowers, requiring little or no collateral and flexible payment options. All of these are ways in which microloans have been fine-tuned by organizations to fit the needs of those in the Third World that they are designed to help.

Much like a loan in a developed country, loans in Third World countries can be issued for productive goals and also for consumption of goods, to aid the borrower now or to help them prepare for tough times in the future. Use for consumption can be an important part of these loans, as some families have varying income that makes it hard to save up for durable goods purchases. By the same token, productive use, such as in businesses or trades, is the footing on which a developing economy may be able to grow into the twenty first century.

Perhaps the most important area where microlending institutions are seeking to help the developing world is in the expansion of incomes. Income, a measure of financial well-being, is lagging in the Third World and it is estimated that 1.4 billion people live on under \$1.25 per day ("Standard of Living," n.d.). This is important to understand, as one of the chief goals of microloans is to raise personal incomes. By raising personal incomes, Third World families and individuals will be able to purchase more resources to better feed, clothe, and shelter themselves. The long-term goal of raising quality of life in these developing nations is what motivates most microfinance institutions. Because income growth is simple to measure and a good indicator of better circumstances for families, it will be the main indicator studied in this paper.

In developing countries, slow economic growth is exacerbated by the difficulty of obtaining loans. Lending seed money to those seeking to start a business can overcome this difficulty and help them start up (Banerjee et al., 2014, p. 3). In order to get business ideas off of the drawing board and into practice, loan money is often needed. With the proper tools, these businesses are better able to set up shop and contribute to the overall GDP of their country. Because GDP is a measure of total economic activity, the higher a

country's GDP, the better off the inhabitants generally are (Callen, n.d.). When an economy is booming and GDP is higher, there are more opportunities available for people within that economy. This is a primary measure of quality of life, as it shows how well business is doing in the country of interest.

Lastly, the livelihood of women is a primary goal for this movement. As some women could be at a higher risk of abuse and other negative effects when living in poverty, giving them the ability to sustain themselves and become productive in their national economy is vital. Most women in Third World countries are highly dependent on their husband as he is usually the sole source of money, which leaves them completely reliant on someone who may exploit that dependence (Drolet, 2011, p. 632). Increasing the incomes of these women and thereby increasing their mobility and self-determination is a primary goal of microlending programs. This goal has influenced microlending so much that some institutions will lend only to women. The advancement of women in an economy that some view as stacked against them has been at the forefront of microlending since Muhammad Yunus issued his first microloan to rural women who were basket weavers in 1974 (Yunus & Weber, 2007, p. 46).

Microloan Concept and Sustainability

The concept behind microloans is fairly simple. In order to start a business, entrepreneurs need starting capital. Equipment, goods, tools, and other resources need to be purchased in order to make goods or services that can then be sold to others. When personal savings are not enough to cover the amount of money needed by these startup costs, most entrepreneurs seek out a loan or investors. Usually, investors require that they be given part ownership in a business when they contribute loan money. They might also

require that money be given back to them with interest at some point in the business' future. This ensures that the risk the investor takes on is properly rewarded if the business is successful. Loans, on the other hand, can be taken from a bank that believes that an individual will pay back the funds that they have lent to him or her. The bank will charge them interest on the loan as a way to protect themselves against inflation, reimburse them for use of the money, and pay them back for the chance that the borrower will default on the loan.

Entrepreneurs take out loans much of the time because they believe that they will be able to pay back the amount with interest and still have profit left over, thereby increasing wealth. In the developed world, this is a standard process for many businesses. Taking out a loan, using the funds to generate profit, and then paying back the loan and keeping the money you made with it is the cornerstone of business finance. However, entrepreneurs and business owners in the Third World have difficulty with this model because traditional loan money can be impossible to obtain due to their geographic location or lack of collateral (Bruton et al., 2014). When it is available by traditional profit-generating banks, they may be charged an exorbitant amount of interest because of the risk of default, the absence of competitors in the market, or even because of price-fixing by the banks in the area (Banerjee, 2013). When these issues prevent businesses from getting funds, microfinance institutions fill the gap. These entrepreneurs can then use these funds to generate income for themselves and their family, improving their quality of life and the quality of life of those around them.

For those who are familiar with only a more westernized view of lending, the absence of collateral in these loans may be frightening. Loans in developed countries are

normally tied to a form of collateral, or something that the lender can take possession of in case a borrower cannot repay the loan. This format is widespread in the developed world and has become the norm when loans are made that they will be tied to the value of something like a home, car, or property. However, for borrowers in Third World countries, collateral may not be available due to poverty or communal ownership of property. How do microlending organizations ensure that their programs can be sustainable in the future when the absence of collateral complicates the conventional view of lending?

Because the normal format of lending is not as appropriate in the Third World, most organizations have resorted to alternative ways of ensuring repayment. According to the research, these methods fall under one of two categories: building a relationship with the borrower, or lending to a group rather than individuals. Both of these methods have aided MFI's in obtaining high repayment rates. When issuing a loan, ensuring a legitimate use is important but does not ensure that the borrower will repay the loan. This is why lenders tend to build a good relationship with their borrower. Many microfinance institutions have relied on this method to make repayment more likely (Polk & Johnson, 2012, p. 498). In addition to this method, many microlending organizations will make loans to communities rather than individuals because the risk of shame between members of community tends to be a powerful motivator to repay (Kodongo & Kendi, 2013, p. 99). It is with these methods that lenders have been able to make and sustain loans to those with little or no collateral and reduce the possibility of default.

Brief History of Microloans

While microlending as a term is a relatively recent invention, conscientious lending of this style has been practiced for thousands of years. The Bible teaches principles that are similar to microlending in practice. In the Bible, the principle of helping through lending is mentioned many times. These include loan forgiveness during the Year of Jubilee (Deut. 15:1-15), reconstitution of family-owned land (Lev. 25:10), and many general commands to give graciously to the poor (Prov. 19:17, Heb. 13:16, II Cor. 9:7). While the principles mentioned above are not perfect copies of today's lending programs, the basic concept of helping those less fortunate through gracious lending practices is the same. Later, in the 19th century, activist Lysander Spooner would theorize that small loans to rural workers could help alleviate poverty. The principles that would guide modern microfinance operations were being explored and would culminate in a new form of finance based upon its virtues, principles, and goals.

The short history of modern microlending began in Bangladesh in 1974. While a professor at Chittagong University, Muhammad Yunus issued the first microloans to basket weavers in an economically depressed area of his country ("History," n.d.). These weavers were unable to purchase materials for the construction of their goods without an advance of money; in order to finance the purchase of these raw materials, they were forced to rely on loans from local lenders who charged interest rates that left mere pennies of profit for the basket weavers after they repaid them (Yunus & Jolis, 1999). These small profit margins kept the weavers from accumulating enough money to purchase materials for their next assembly run, which meant that they needed to go back to the same source of funds to finance the purchase of materials, and so on. Yunus

recognized that this cycle of poverty could be broken if the basket weavers were able to obtain just one loan with favorable terms that would allow them to retain their profits and reinvest them in their business. He lent the equivalent of a mere \$27 to the weavers, who were then able to raise themselves out of the cycle of poverty that had entangled them for years (Yunus & Jolis, 1999).

After seeing the results of his loan, he became inspired to see others receive the same opportunity. He founded the Grameen Bank (literally “Village Bank”) in 1983 as a way to institutionalize the issuance of these microloan tools (Founder, n.d.). While this represents the foundation of modern microlending, most people in the First World did not become aware of these efforts until 2006, when Muhammad Yunus won the Nobel Peace Prize for his work in Bangladesh and its neighboring countries (“History,” n.d.). After observing the results that his organization had met in Bangladesh and the modest profit that the organization continued to have most years to provide for the day-to-day needs of the organization, it seemed that international sentiment was behind Yunus and the microloan movement. Yunus’ championing of the microlending movement had caught the eyes of non-governmental organizations around the world and the beginnings of the current microlending environment were seen.

Current State of Microlending

Many organizations have been formed to help serve the needs of borrowers in poor countries in hopes of lifting them out of poverty. The Grameen Bank continues to be one of the largest microlending organizations in the world, issuing close to one billion dollars in loan funds to 8.3 million people in 2012 (Villarino, 2012). Yunus has been a strong proponent of the microlending and the broader “social business” movement,

holding conferences around the world and spreading the message of these new business concepts which stress “business with a heart” and sustainable projects meant to eliminate world poverty. But while the Grameen Bank may have been the first lender to the party, there are now more than 10,500 microfinance institutions in the world (ResponsAbility Investments, n.d.). This profound growth is a strong indication of current sentiments towards microloans, namely, that these tools are both good for the recipients and good for the issuing organization. Over 17 billion dollars in microfinance dollars were outstanding in 2011, with particular crowd funded websites like KIVA and World Vision helping connect normal people in the developed world with microlending opportunities (Brutton, Khavel, & Chavez, 2011). These organizations have been built around the microfinance industry and rely on its popularity to accomplish their goals.

Microlending is now very popular with global poverty change agents because of its poverty-eliminating potential. Their efforts continue to attract millions of dollars to microfinance institutions that then lend the funds out to the needy in Third World countries. Most of these organizations advertise how the money will be used, and in some cases, to whom the money will be loaned. This personal connection has proven to be a game-changer for the microfinance industry, with organizations sometimes posting stories and business plans, along with pictures, of individuals who will be helped by microloans. This has functioned as a type of advertising for microloans, declaring the good that is has done to the masses. However, the microfinance industry has not been without its setbacks.

While microlending institutions have been known to attract poverty activists and those concerned about gender inequality in Third World countries, the opportunity for

profits was too tempting for some. Some microcredit organizations have been accused of reaping outrageous profits by charging interest rates well above the market price, sometimes up to 94% (Brutton et al., 2011). A few microfinance organizations have risen through aggressive approaches that border on unethical behavior (Dhillon, 2014), and even some of the biggest names in the industry have made decisions that have prompted outrage. In 2007 Banco Compartamos, a Mexican microfinance institution, chose to issue an IPO that brought in more than a half billion dollars (“Yunus Blasts Compartamos,” n.d.). In 2010, a similar situation occurred when SKS Microfinance issued an IPO that made millions for its founder (Bajaj, 2011). Obviously the microcredit industry attracts both charitable and opportunistic minds.

Despite these setbacks in public opinion, microfinance institutions around the world continue to operate. The potential bad that can be done is outweighed by the perceived good of the program and its potential to curb poverty, and unlike charity, microfinance has the potential to teach people to self-sufficient, instead of waiting for a handout. This is one of the chief reasons that this type of support has gained popularity; it can be perceived as equipping instead of giving.

With these organizations delivering so much funding to the Third World, one may be tempted to believe that microfinance has been proven to work and will eventually raise the Third World into an era of prosperity. However, this is not necessarily the case. Almost immediately after microfinance institutions began to be recognized for their work around the world, people began to question their methods and the effects of issuing collateral-free loans to people with little more than a small business plan. These doubts

have not been abated and persist until today, with research still being divided on the short-term and long-term effects of these loans.

Measuring Results

Determining the effects of microlending on incomes in the Third World is essential to determining their usefulness as a tool for growth in the future; after all, if incomes have not grown where microlending programs have been instituted, their effectiveness at increasing this quality of life metric is dubious and microlending programs would not be worth the resources that they require. So as can be seen, measuring these programs is of extreme importance to ensure that what makes sense on paper has results in practice.

Measuring changes in income is a fairly simple process of determining the subject's income level before the program was instituted and then again after a sufficient period of time has passed that the effects would have an effect on the subject's income. While the measurement of this quality of life metric is relatively simple, it is important to remember that there are other important measurements that can be accessed to determine the effectiveness of these programs, such as growth in women's equality, GDP, and overall life satisfaction of participants.

The process of studying the results of these studies have been further complicated by the fact that there are few industry-standard calculations of quality of life metrics. Areas such as personal well-being, accomplishment, knowledge, and domestic life are difficult or impossible to quantify and make these results irrelevant for the purposes of this paper. GDP, as it is a composite of all domestic productive labor and exchanges, is difficult to attribute to any one factor and does not lend itself to study alongside

microlending. Gender equality is also more difficult measure to accurately reflect, but can be quantified in a way that make the results significant. Results of the effects of microlending on female empowerment have been positive thus far, but these findings are outside the scope of this paper.

Because income growth can be easily quantified as a test of microfinance's results by simply comparing these levels before and after the programs were initiated, this metric is perhaps the best for measuring the effectiveness of microlending; it is for this reason that this will be the primary metric assessed in this paper. Many individual studies conducted in different corners of the world will be examined to analyze trends and discern the potential and track record of these loans. Each study in this paper uses different methodology to collect data; because of this, data collection methods differ greatly and will be discussed alongside the relevant data where appropriate. By accurately and carefully observing the principal qualities of this data, people will be better equipped to evaluate the effects of microlending on income growth in Third World countries.

Effects on Income

Personal income is an important quality of life measure, as it determines what the individual or family in question has access to. In this context, a rising income when exposed to a microfinance program would be a good indicator that the money is being put towards a useful end and has given them the ability to provide better for themselves in relation to their neighbors.

Incomes in the Third World have lagged behind their Western counterparts for many years. With more than 10% of the world living on less than a dollar a day, raising incomes in developing countries is a primary goal for many organizations. These groups

of people have to spend most of their earnings every day on food and have little chance of being able to acquire assets that can help them compete in their country's economy ("Standard of Living," n.d.). These extremely poor areas of the world are those targeted by microfinance institutions for programs designed to raise their income by giving them the opportunity to purchase these productive assets. Raising incomes in the Third World is and should be a long-term goal for microlending to prove its effectiveness in the global economy.

Study of the effects of microlending programs on personal incomes for those within the program has produced scattered results at best and depends highly on which areas were studied and how the results were collected. Microfinance institutions have heralded positive findings as proof that their models work and their methods have been shown to be effective. Negative findings, on the other hand, have convinced some academics that those seeking to do good in the Third World should instead try more conventional aid like savings programs or education.

One important study that dealt with this topic was conducted in Malaysia. Researchers studied the effects of a microloan program in the country that gave loans to individuals confirmed to be living in poverty. As part of the process, the researchers had the applicants fill out a questionnaire before and after the study. The results were then tabulated to show differences before and after the microfinance program was put into place. Results from the study were then used to determine what effects, if any, took place before and after the program was instituted and what the change was in the lives of the recipients (Chan & Ghani, 2011, p. 52).

The results for those the researchers described as poor and very poor were very interesting. Roughly 68% of the loan recipients started out in the “very poor” category at the beginning of the survey, with 32% starting out a bit ahead in the “poor category.” This distribution is according to the questionnaire taken before the microloans were made available to the applicants. After the ending questionnaire, it was revealed that only 7% of recipients were now in the “very poor” category, with 40% now in the “poor” category and 53% acquiring an income that put them above the poverty line. These results show an incredible growth in the income of those who were given the opportunity to lend through this program; this growth was tremendous and represented a breakthrough in microlending research. The use of the microlending funds was studied to discern which uses were chosen and how they contributed to this tremendous effect. A closer look at how the funds were used can reveal how these funds can be used in the future to have the same effect (Chan & Ghani, 2011, p. 52).

In researching, the administrators of the study also looked at how the funds were used by the individuals. Of the vast majority who took out the loan for productive use in their already-existing trade, the most common uses were fishing equipment, farming equipment, and planting equipment, with a small number investing in opening small repair or other workshops in their home. As these industries are common in the area in which the study was conducted, it would appear that these people chose to grow their current trade with loans and invested in equipment that would aid them in productivity. These findings are encouraging, as it gives proof of many poor individuals making productive use of microloan funds to expand their income through purchasing equipment to use in their current trades (Chan & Ghani, 2011, pp. 53-55).

The second study observed was a macroeconomic look at microfinance programs that were instituted in many locations and measured the change in income observed after these programs were instituted. To ensure that they had only the best quality of research to do a large-scale analysis of, the authors evaluated how well the data had been collected and under what conditions. Those that were not rigorous enough and those not fulfilling the other criteria set forth to maintain quality within the data were eliminated from the study. Income was measured because it is easily quantifiable and changes can be easily seen when comparing income before and after the research was conducted. After choosing a selection of the only the best academic inquiries performed on the effectiveness of microlending on raising incomes, they analyzed the results together to see if any conclusions could be drawn (Yang & Stanley, 2012, p. 12).

To analyze the link between microcredit and income, the authors calculated a partial correlation coefficient. This method determines what type of link, if any, can be drawn between the two variables and how strong that link is if it is present in the data. This calculation lends itself very well to this analysis, as incomes in different currencies can still be analyzed. The authors were able to analyze the data from the selection of studies and explain the results (Yang & Stanley, 2012, p. 14).

According to the authors' findings, incomes did increase, on average, for those taking part in a microcredit program. However, while the increase was present on average, it did not pass into the realm of statistical significance and is described as being "policy irrelevant" (Yang & Stanley, 2012, p. 14). The microcredit program was found to explain only one quarter of one percent of variation in income after use of a microloan. The authors admit that their studies may not have had sample sizes large enough to show

completely conclusive results; however, their study does have the advantage of evaluating surveys from many regions (Yang & Stanley, 2012, p. 17).

Because women have been observed as being better agents of “poverty reduction,” microlending institutions have been more likely to lend to women exclusively or in higher numbers for decades (“Despite Economic Downturn,” n.d.). It was Muhammad Yunus who first began lending to women in higher numbers than men, and today his Grameen Bank issues more than 90% of its loans to poor women (Clydesdale and Shah, n.d.). Worldwide trends mirror the Grameen Bank, and women are the more popular recipients for microlending dollars in the Third World. Because of these trends, much research about income growth has revolved around women’s income growth. Many of these studies have been conducted, and one can learn much from analyzing them alongside general studies that are not gender-based. An important example of these studies that we will analyze was conducted on female recipients of microlending dollars in the Philippines between 2002 and 2008.

The study, conducted by researchers from Colorado College, analyzed data collected before and after women were given a microloan by Grameen Bank in the Philippines. Before receiving the loans, which averaged roughly \$225 USD, the organization asked women to complete a 10-question survey to determine their poverty level. Questions ranged from how many children they were responsible for to what types of materials their house was constructed of (Polk & Johnson, 2012, pp. 493-4). After computing a score for each of the women, the loans were then issued and the women were again administered the questionnaire at the end of their loan period. What the researchers found when they analyzed the data presented some interesting conclusions.

The researchers found a direct correlation between loan size and reduction in poverty (Polk & Johnson, 2012, p. 496). They also found that those women who started with the most need were also those whose situations improved the most (Polk & Johnson, 2012, p. 495). This is because those at the bottom of the ladder can only move up, whereas someone near the middle has mobility both above and below their current level. The study also revealed that a long relationship between the Grameen Bank and the borrower increased the likelihood of poverty reduction (Polk & Johnson, 2012, p. 498). Spending toward existing businesses tended to be better at reducing poverty than starting a new business with the loaned funds, the economists also found (Polk & Johnson, 2012, p. 498). This suggests that spending on businesses with an already tested business model is a better use of microlending funds from MFI's. Thus, the ideal candidate for a large microloan from the Grameen Bank in the Philippines is someone living in extreme poverty who plans to use the money in an existing business and has spent or plans to spend many years as a borrower of the Grameen Bank. This type of candidate, the researchers found, would be more likely to lift themselves and their family out of poverty and be better able to put a roof over their heads or provide basic necessities.

Current research (Yang & Stanley, 2012) on the impact of microloans on individual income is not conclusive. However, early research indicates that incomes are most likely positively affected by these programs. As with most microloan research data, results vary significantly between studies and are most likely dependent on unquantifiable activities. The research studied in the preceding paragraphs is part of growing body of research aimed at learning what makes a microlending program successful in an environment that is desperate for growth. Studies in the future will add to

the body of research and equip decision makers with more of the information they need to fight poverty in the Third World.

Summary of Effects on Income

As seen in the research discussed in this paper, the effects of microloans on the communities that embrace them is varied. These programs have been shown to be effective under certain circumstances, which provides hope for the future of the program and its forthcoming benefits. The differences in these programs and their effectiveness could be explained by any number of variables, which makes it hard to discern exactly how these programs can function their best and under what circumstances they do. In some areas, a culture of male dominance could encourage women to surrender microlending money to their husbands. Some cultures may place less of an emphasis on new businesses, and some could place less emphasis on income or encourage productiveness in parts of the unmeasured economy. Other differences may also present themselves, such as how impoverished the nation is, what the relationship is with the bank, whether the loans are made to groups or individuals, and the terms of the agreement.

However, as is present in all of these studies and has become central to the microlending movement, personal involvement with the recipients is crucial. While studying human efforts is necessarily subjective and difficult to quantify, microlending is built around raising the poor out of poverty. Doing this requires a mindset of charity and love. It seems to follow that those involved in the issuing of these loans would seek to build a relationship with those seeking help. This lender-borrower relationship is most likely the reason that microfinance institutions have been able to retain a low enough

default rate to continue to operate. This relationship is a core strength of microfinance institutions, and successful organizations will learn how to use it to help them better lend to their clients.

Effects of microfinance on Third World incomes have been mixed. But despite the wide variety of results, the core strength of the lending programs, personal connection with the borrowers, is a critical success factor. By separating themselves from conventional banking theories and tailoring the loan process to meet the needs of the poor, providers of microcredit have created a different method of obtaining funds that has more potential to raise the poor out of poverty. Studies in the future would do better to focus more closely on the lender-borrower dynamic in addition to the actual effects of the loan.

Effects on Other Metrics

While the effects of microlending on incomes in the Third World have been positive in some cases and inconclusive in others, there are other areas of measurement that are important to consider when determining the efficacy of microloans. The next two most important metrics are perhaps GDP growth and women's empowerment. While these two metrics are more difficult to measure and draw conclusions from in comparison to income growth, they can still be studied in the context of microloans for a better understanding of the subject.

For economists, perhaps the most important measure that they hope a microloan will help improve is their business landscape, measured by national GDP. Simply put, GDP is the sum total of productive activity in that country. While GDP does not include work that is not performed for financial gain, it includes all productive work for which money is exchanged. GDP has been the most important measure of a country's economic

wellbeing, and is generally recognized to be the most important measure of productive output available. The amount and magnitude of transactions and wealth that is created within a country has everything to do with the financial stability of that country, and also has profound effects on the wellbeing of its citizens. While a large GDP does not guarantee that all members of a society have enough to live on, it does mean that there is a bigger pie from which to cut their own respective pieces. An environment of higher GDP growth and booming atmosphere it creates presents many opportunities for new businesses and needs to be filled (Alihna et al., 2011). There are studies that connect microloan programs with a period of GDP growth, such as a randomized analysis conducted in India in the early 2010s.

Researchers at MIT are currently conducting one of the only long-term, randomized studies on the effects of microfinance on business growth and development. According to the researchers, in comparison to the control group in the analysis, businesses in areas with access to microfinance were significantly more likely to have a larger amount of assets and be more profitable (Banerjee et al., 2014). However, after a closer look at the data, they also realized that a few larger organizations were bringing up the mean, and in fact the average business was still small and profitability had not increased. In addition, they found that the presence of an MFI branch does not necessarily make new businesses more common; the researchers also found that these branches did not have a significant effect on the instances of new business startups (Banerjee et al., 2014, p. 18).

Researchers from the University of London prepared another in-depth look at the effects of microlending programs on business growth and development in 2011 by

examining more than 50 scholarly papers to analyze short-term and long-term trends. They tabulated their results according to amount of impact, where that impact occurred and whether it was statistically significant. However, their results showed inconclusive evidence of positive effects. The researchers found that there were few statistically significant changes when microlending programs were used (Duvendack, 2011, p 3).

While studies of microlending's effects on GDP have been disappointing, studies of the effects on women's empowerment have been more promising. When Muhammad Yunus began the first modern microcredit bank in Bangladesh, he first chose to lend to men and women equally. However, not long after starting, they noticed that women were more likely to use the money for something profitable and more likely to pass the benefits along to their family (Yunus & Weber, 2007, p. 55). Of course, there is always the danger that the man in the household will use his wife or daughters to get the loan for his own personal use, as has been studied in detail in South Africa (Balasubramanian, 2013, p. 618). But despite this risk, the research conducted has been mostly positive.

In 2010, an important study on the effectiveness of microlending on women was conducted in Cairo, Egypt. The researcher utilized a mix of focus groups, interviews, documentation, and observation to measure the effects that a microlending program had on its participants (Drolet, 2011, p. 634). The study uncovered that most of the women described their use of the money as a way to provide food, housing, or education for their family, as well as debt repayment and some health care (Drolet, 2011, p. 635). According to the researcher, these uses fall in line with the traditional female roles in Egypt and show that microloans were actually reinforcing their roles in the home instead of

expanding it (Drolet, 2011, p. 635). While true, the women were appreciative of having a program in place where they could have a source of funds that was entirely theirs.

An additional study that looked at the effectiveness of microlending programs on the lives of poor women was published in 2015 and was about the effects on women in Nigeria (Idris & Agbim, 2015, p. 122). The women in the study, according to the researchers, were similar to women in other developing countries who seek microloans: little education and no training (Idris & Agbim, 2015, p. 131). The survey and later analysis revealed that women in the Nigerian village studied became entrepreneurs at much higher rates than their counterparts in other villages. In fact, over 75% of the variation in self-employment was explained by the presence of microloans (Idris & Agbim, 2015, p. 133). The study also found that a large amount of correlation was found between microloans and education, training, and skills acquisition among the recipients (Idris & Agbim, 2015, p. 134). In regards to economic empowerment, microlending was shown to explain close to 90% of the variation between this in the program and those not in the program (Idris & Agbim, 2015, p. 134). The empowerment measurements were taken from a questionnaire, perhaps the best method of measuring the before and after effects of a program such as this one on the women it serves.

As can be seen, income growth is not the only useful indicator of microloan effectiveness in the Third World. Effects on GDP growth and women's equality are also important and both have had much research conducted on them with differing results. Women's empowerment, in particular, has been a primary objective for lenders in recent years and has attracted new interest in the movement because of its progressive goals. It

is important to remember these metrics and others when evaluating microlending programs in the Third World.

Conclusion

The future of microlending in the developing economy is unclear. While its effects have been shown under certain circumstances, positive results are not necessarily to be expected. Governments, organizations, and individuals will need to decide whether a microcredit institution is the right answer for a particular area. In some cases, the use of microloans is likely to be successful. However, its use in areas where certain factors do not make it optimal will likely see no increase in quality of life metrics, and a loan could exacerbate the development of their economies.

When Muhammad Yunus developed the first modern microlending program in Bangladesh in 1976, he hoped that it would have a positive impact on those who chose to borrow from their bank. On the website of his organization, the Grameen Bank, it states that their mission is “to enable the poor, especially the poorest, to create a world without poverty” (“About,” n.d.). Many years later after the start of his bank, people are often motivated to help those in the Third World by administering programs that will aid its inhabitants in improving their own conditions in ways that will be sustainable in the future. That is the key, after all: teaching and giving resources to those in the Third World who can improve their own standard of living.

The future of microlending as a tool to aid in this process is unclear. As more research is uncovered in the coming years, its usefulness will become increasingly evident. However, whatever the results are, it is important to remember the basic premise behind microloan availability and the economic freedom it can deliver to those whose

only other option may be the only chance they get at economic opportunity. Aiding those who are in desperate need can help ensure a better world for everyone.

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