

AN ANALYSIS OF CONTEMPORARY MICROFINANCE AND THE IMPACTS OF
MISSION DRIFT IN THE FIELD OF INTERNATIONAL DEVELOPMENT

BY

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TABLE OF CONTENTS**1 INTRODUCTION**

1.1 Microfinance Overview	4
1.2 The Borrowers	6
1.3 Mission Drift	7
1.4 A note on terminology	8

2 LITERATURE REVIEW

2.1 Microfinance Theory	11
2.2 Reaching the Poor	14
2.3 Group Lending	17
2.4 Empowering Women	19
2.5 Ethical Debates	27

3 ANALYSIS

3.1 The Implications of Mission Drift for Microfinance	32
3.2 For-Profit vs. Non-Profit	33
3.2.1 For-Profit	36
3.2.1 Non-Profit	37
3.3 Ethics of Mission Drift	40

4 CONCLUSION

49

5 REFERENCES

52

CHAPTER 1: INTRODUCTION

Between the 1970s and the 1990s, the concept of microfinance as a strategic anti-poverty mechanism occupied a vast and dynamic space within the field of international development. Popularized by economist and 2006 Nobel Peace Prize co-recipient Dr. Muhammad Yunus, microfinance is rooted in a local experiment in Bangladesh with the purpose of promoting self-employment and small-scale entrepreneurship, particularly among impoverished and disempowered women. During the first stages of its development, microfinance was arguably a revolutionary concept for poverty alleviation. Its original objective was to reach the most impoverished through the provision of small loans that could be used for entrepreneurial endeavors and revenue generating projects. Microfinance was seen as a way to reduce extreme poverty, empower women, and increase the quality of life for the borrowers. Between 1997 and 2005 the number of microfinance institutions increased from 618 to 3,133, and the number of borrowers rose from 13.5 million to 113.3 million (84 % of them being women) (Hermes and Lensink, 2007).

After gaining popularity and support from development scholars, policy circles, and the public as a poverty alleviating tool, microfinance as a concept also became an attractive revenue generating site for profit seeking commercial banks and multi-national corporations. The expansion of microfinance policy opened up a new opportunity for commercial banks to integrate microfinance into their banking portfolios, which was framed as an effort to better serve the impoverished by increasing the value and amount of loans available to them. More in-depth and frequent evaluations of microfinance success rates have brought to light the corrupt and manipulative potential that microfinance has when used in a profit seeking context, leaving the practice as a target of moral criticism and ethical questioning (Hudon, 2011). Notable scholars, such as Karim (2008), suggests how the shift that microfinance has experienced in the late 1990s and early 2000's, from a bottom up, grassroots approach to poverty reduction, to a top down, profit seeking approach, runs in parallel with the spread of neoliberal economic policy to developing communities, further ingraining dependent relations between the powerful rich and the vulnerable poor. In addition, the culturally insensitive practices of many profit seeking microfinance institutions not only perpetuate the debt cycle and expand the neoliberal

globalization agenda to the South, but they can also trigger conditions such as mass suicides and severe stress related health problems (Ashta, et al., 2011).

The following study will engage with the dangers and negative impacts that small microfinance institutions face when they are co-opted by profit seeking commercial banks and other for-profit financial institutions. It will highlight the deliberate and exploitative measures that further develop dependent relationships between borrowers and lenders through pushing the impoverished deeper into poverty traps and debt cycles. It will suggest the necessity of reevaluating modern microfinance practices as a poverty alleviation tool, and present valuable innovations that microfinance institutions have used in their programs in order to create a sustainable and well-rounded poverty alleviation tool. The main focus of the analysis will establish the high risk of mission drift that modern day microfinance institutions encounter, as the scope of microfinance within international development continues to lean more towards neoliberal economic policy, rather than grassroots, not-for-profit development strategies, and how this is a detriment to the borrowers who are involved. Throughout the analysis, this thesis will also highlight the large gap in empirical research within the study of microfinance that further deepens the divide between critics and advocates of microfinance, as the evidence for or against microfinance is typically limited to anecdotal instances or cases. The study concludes by claiming that the commercialization of microfinance organizations is an inefficient, exploitative, and contradictory attempt at the original aim of microfinance and its poverty alleviation vision, and that grassroots microfinance organizations who strive for capacity expansion through commercialization effectively limit their success of poverty alleviation through their risk of mission drift, or complete co-optation by commercial organizations. The following portion of the introduction provides a brief context of microfinance, in addition to the discussing the two key questions of this study: 1) What is the context of the borrowers' situation, and is microfinance effective in alleviating their impoverished situation? and 2) What are the risks and negative impacts of mission drift, and how has the commercialization of microfinance created a counter intuitive economic concept that actively exploits and deepens the socio-economic disparities within developing communities?

1.1 Microfinance overview

In order to understand the scope of microfinance and how it affects the poor, it is important to consider the origins and structure of the framework. Microfinance has existed for centuries in the form of small informal savings and credit groups¹, but it wasn't until the 1970s that it was formally developed as a comprehensive poverty alleviation mechanism. This also coincided with a time when the development discourse and policy innovation was shifting towards a more human centered, empowering approach (Ali and Rahman, 2010). There are several definitions of microfinance dispersed throughout the literature, but for the purpose of this study, Hudon and Sandberg (2013) offer the simple definition of microfinance as the “extension of financial services to poor or low-income clients who typically are denied service by mainstream commercial banks” (Hudon and Sandberg, 2013, p. 562). These loans are usually collateral free, given that the most impoverished borrowers are blocked from commercial bank because they do not have access to adequate collateral. Some of the first prominent microfinance institutions include the Grameen Bank, ACCION International, and the Self-Employed Women's Association Bank in India, each founded on the premise of establishing a financially inclusive operation for the poorest members of society, in particular, impoverished women. Since then, the concept has expanded rapidly over the last few decades in terms of its geographical scope (currently operating in more than 60 countries (Bateman, 2010)), and also in terms of the mechanisms used and the principles followed. The foundational element involved with microfinance is the provision of monetary loans, often below \$200, to impoverished people in developing countries (Hudon and Sandberg, 2013).

Upon the expansion of microfinance and a more critical, needs based assessment of those living in poverty, most non-governmental organizations (NGOs) and development focused microfinance institutions now also include services such as literacy education, training in microenterprise development, management, and health care awareness programs that go hand in hand with financial assistance (Ali and Rahman, 2010). Yunus (2007) argues that microfinance works at its best when it is paired with other programs that unleash people's potential. However,

¹ See Alba, J., & Park, D. (2003). The Role of Group-Based Lending and Microcredit in Economic Development. *Savings and Development*, 27(4), 381-384.

along with the expansion of additional services, microfinance has also experienced a neoliberal wave of commercialization, which brought with it increasing interest rates and high risk of mission drift. The current period of microfinance commercialization has resulted in a dramatic shift in the surrounding discourse, attracting critics of neoliberal globalization who claim that the commercialization of microfinance will only accelerate the negative impacts of microfinance, and also sparking deeply divided ethical debates between academics and policy makers (Hudon and Sandberg 2013).

1.2 The Borrowers

Many scholars would describe microfinance as a mechanism that was created to serve the poorest of the poor, most often women, in order to reduce their dependence on informal sources of finance. Yunus (1998) claimed that if the institutions focused on women, microfinance would have a greater impact on the wealth of the household. Due to their lack of collateral, they are unable to take out loans at commercial banks, and therefore rely on moneylenders for financial aid and stability. However, these services come with the price of high interest rates and unpredictable payback demands, which has a potential to push them further into debt and poverty traps (Khandker, 2000). Microfinance, on the other hand, was created to alleviate impoverished women and allow them to gain control of their finances by providing loans and other financial services, with low interest rates and minimal (if any) collateral requirements. An evaluation by Goetz and Gupta (1994) uses a five-point index of “managerial control” (p. 6) that the women have over their loans, ranging from “no involvement” to “full” (p.7). It was found that the majority of women had little to no control over their finances due to the involvement of the male family member, which sparks a polarized debate about whether or not women actually benefit from microfinance.

The majority of microfinance institutions provide loans through group lending, meaning that borrowers are not able to take out a new loan until the previous loan has been paid back (Hermes and Lensink, 2007). Critics of group lending argue that the lack of supervision that microfinance organizations have over their borrowers will have a negative effect on the accountability of the group loan, and also ties into the lack of monitoring of the previously mentioned issue of males making use of the loans of females. The majority of literature published on the topic of the true

effectiveness of microfinance on the targeted poor is based on anecdotal evidence; however, continued research is necessary in order to understand whether or not access to credit truly empowers women, and if so, in what form.

1.3 Mission Drift

The entry of commercial banks into the field of microfinance sparked profit generation, increased exploitation, and extensive ethical controversy from grassroots and NGO microfinance organizations. The premise of the commercialization of microfinance was to increase the supply and value of loans that was available for borrowers, and the narrative of commercial bank funded microfinance was that it fostered an increase in efficiency and availability of loans for the poor. However, upon further research, the question of effectiveness and whether the commercial organizations were meeting the needs of the most impoverished became a dominant point of debate within the field of development (Bateman & Chang, 2012). The influx of loans created more competition for traditional microfinance organizations, leading to high levels of perpetual indebtedness due to borrowers taking out multiple loans from different sources at the same time (Lensink, et al., 2011). Commercial banks saw microfinance as a new way to make profit, and the principles of microfinance experienced a shift from a grassroots poverty alleviation strategy to a neoliberal revenue generating mechanism through exploitative lending practices. This is what scholars refer to as mission drift, where the original mission of microfinance as a way to bring wealth to the most impoverished turned into another way for the wealthier borrowers to benefit and for the poorest borrowers to suffer. Mission drift will be expanded upon in the later sections.

The second chapter of this thesis will provide an overview of the literature in the area of microfinance and will be split into five subsections: microfinance theory, reaching the poor, group lending, empowering the poor, and the ethics of microfinance. Each will bring to light the common opinions and critiques of scholars in the field of microfinance and development, outlining the polarized opinions of microfinance as it stands today. The third chapter will provide an analysis of contemporary microfinance and will outline a more in-depth overview of mission drift and the implications that it has had on microfinance. It will also identify the differences

between for-profit microfinance and non-profit microfinance and how because of mission drift, there is now a greater need for further clarification regarding the differences between for-profit and non-profit microfinance within the literature, considering how differently their frameworks have come to be. The final section of chapter three will further discuss the ethics of for-profit microfinance, and evaluate whether or not mission drift should be considered unethical, due to the exploitation and coercion that it has brought to the field of microfinance. This thesis will conclude with a summary of the common arguments for and against for-profit microfinance and non-profit microfinance, and will reiterate the overarching argument that mission drift and the commercialization of microfinance organizations is an exploitative practice that undermines the original aim of microfinance, which was to reach the poorest of the poor and lift them out of poverty.

1.4 A note on terminology:

Within the field of microfinance there are various terms that have been used interchangeably throughout the literature when referring to the same general concept. For the purpose of this thesis, the following will clarify some of these terms:

- 1) The first terms that are often used interchangeably are terms “microfinance” and “microcredit”. Microfinance refers to the broad spectrum of services that microfinance institutions may offer to those who are impoverished, whereas microcredit is the actual loan itself. Microcredit is one of the services that falls under the umbrella term of microfinance, however the term microfinance is used throughout this thesis to refer to the overall functions of each institution. The term “microfinance loan” or “loan” is typically used in place of “microcredit” or “microcredit loan”.
- 2) The second set of terms that are used interchangeably are “mission drift” and “commercialization”. Mission drift is rooted in non-profit/charity terminology and refers to the act of phasing in a new objective of a non-profit, whether intentional or not, and usually in the face of innovation or expansionary opportunities. Commercialization, on the other hand, is more rooted in commerce/economic terminology, and refers to the profit-seeking act of phasing in a new product or service into the market. These two terms are used interchangeably throughout this

- thesis to describe the process of 1) new, for-profit microfinance institutions coming into the field of microfinance as a result of mission drift within the field, or the commercialization of the field, and 2) the process of already established, non-profit institutions transitioning into becoming a for-profit institution, which can be described as the organization either commercializing, or experiencing mission drift.
- 3) The third set of terms that is similar to the second set are “commercial microfinance” and “for-profit microfinance”. Both of these terms refer to the same type of microfinance institution, of which holds making a profit as a higher priority than lifting the poor out of poverty. These terms will be used interchangeably throughout this thesis.

CHAPTER 2: Literature Review

The following chapter will provide the reader with an overview of the literature in the area of microfinance and will break up the literature into five key themes as follows: microfinance theory, group lending, reaching the poor, empowering women, and the ethical debate. The first four themes address some of the fundamental functions of microfinance, and the fifth theme of ethics will bring to light the highly contested opinions surrounding the ethics of contemporary microfinance. This will locate the thesis within the current literature and provide the reader with important context in terms of where scholars have focused their research thus far. Overall, it will bring to light the arguments that are either for or against claims that microfinance is still carrying out its original prerogative of lifting the poor out of poverty, or whether it has become too broad, too co-opted by capitalism, and too profit-oriented to be considered a poverty alleviation tool.

2.1 Microfinance Theory

The initial theory behind microfinance was that it was a comprehensive and ethical way to help the most impoverished break out of poverty. It is not only a way of providing financial services, but it is also grounded in ethical and moral values that come from the pressing need to address poverty on a global scale (Herath, 2018). Microfinance is said to be the “banking for the un-bankable” (Maanen, 2004, p. 17), as it delivers financial services to those who lack collateral, financial literacy, or entrepreneurial skills (Maanen, 2004). Yunus, the founder of the Grameen bank, continuously suggested that the human rights-based ethics behind microfinance was critical to focus on in order to create long lasting and sustainable peace. The confidence behind the concept of microfinance led scholars and policy makers to believe in its ‘end-all’ ability to reduce poverty. This trust and drive behind the concept were further established after Yunus won the Nobel peace prize, when microfinance was viewed as an ethically progressive (Hudon and Sandberg, 2013) mechanism that uses the tools and knowledge of Western economics in order to “develop” economies and reduce poverty in the global South. Microfinance institutions are “often characterized as hybrid institutions with a two-fold agenda: to do good (increase the social outreach of credit) and to do well (achieve financial sustainability)” (Hudon and Sandberg, 2013,

p. 562). Hybrid, in the sense that by facilitating self-employment and entrepreneurship (which are Western concepts), gaining access to credit and knowledge of financial systems can empower the poor to lift themselves out of poverty (Hudon and Sandberg, 2013).

Many advocates for microfinance have interpreted the phenomenon as an innovative way to fill in the gaps that exist between commercial banks and the poor, particularly, poor women. The pioneer of microfinance, Muhammad Yunus, proposed the necessity of microfinance due to the fact that commercial banks “rejected the poor as unworthy of credit,” (Yunus, 1999, p. 250) and with this, claimed that there existed potential for a “financial apartheid” (Yunus, 1999, p. 258). One of the major variables of this gap is that commercial loans almost always require the borrower to have a sufficient amount of collateral in order to back the loan against default. Those that are within the core poor bracket don’t have enough (if any) collateral, and therefore would not be able to back up their loan. This kind of barrier makes it extremely challenging for the poor to create a history with any given bank, leaving it near impossible for those who are impoverished to prove their capacity to pay back a loan. Microfinance avoids this by administering collateral free loans and relies on the group lending process to provide social collateral instead, allowing borrowers to build up their own history of loan repayment for future reference.

Another main reason that scholars use to explain why commercial banks prefer not to lend to the poor is the fact that the transaction costs of lending to the poor are substantially higher, and often actually exceed the loan amount itself (Hermes and Lensink, 2007). Transaction costs are the costs incurred when investigating clients, investments, or other financial activity that is necessary to determine profitability, including the time and money that is required. Those who do not have a history with any commercial bank would require an investigation of previous financial activity, and due to the deep poverty that the most impoverished remain in, obtaining this information would be a lengthy and resource-intensive process. Microfinance institutions, however, use methods of alternative screening to reduce these information costs, such as using social collateral through group lending instead of material collateral, or using existing grassroots tools within a given cultural context (Hermes and Lensink, 2007). Using social collateral allows microfinance institutions to reduce the transaction costs by distributing the responsibilities of choosing members of any given borrowing group to the

borrowers themselves, in addition to the responsibility of monitoring each other, holding each other accountable, and being resourceful when someone can't repay their loan. In this sense, microfinance institutions are able to reduce their costs, allowing them to expand their capacity in other areas (Herath, 2018).

The theory behind lending to women was influenced by a critical point in development studies that brought to light the necessity for acknowledging the capabilities of women in their work, education, and in terms of microfinance, their capability to control their own finances. Several studies were completed that argued that women are less likely to misuse the loans that would be administered through microfinance, and that they would invest it into the entire household's wellbeing (Hudon and Sandberg, 2013). On this note, it was thought that an increase in involvement of women in the household decisions and in community decisions would act as a tool of empowerment for the women involved. Some of the main aspects of microfinance that are thought to substantially improve the effectiveness of microfinance for women is the inclusion of extra services and educational opportunities with regards to entrepreneurship. Microfinance assumes that with access to credit, individuals can use their loans to establish themselves as entrepreneurs in their communities (Mueni Maina Kiiru, 2007). This, however, is only possible when additional educational programs are included in the microfinance services, which would allow borrowers to obtain the skills they need to put the loan to good use. Otherwise, the loans that women receive have the potential to be ineffectively spent or invested due to lack of skills training or lack of information. However, there is also some literature that suggests that there is no actual association between access to credit and women's empowerment, and that microfinance only creates a feminization of debt (Norwood, 2014). Studies have shown that some women are at a greater risk for violence due to these loans, in addition to the fact that microfinance loans add stress to women as they are already responsible for tasks like domestic work, growing crops, and other community responsibilities, and do not have the capacity to take on a small business on top of it all, but are pressured to do so anyways (Hanak 2000, Koenig et al., 2003; Goetz and Gupa, 1996).

2.2 Reaching the Poor

The first and foremost guiding principle of microfinance is the objective of reaching the poorest of the poor, i.e. those who are living in extreme poverty. As defined by the World Bank in 2015, people who are living in extreme poverty are those who are living on \$1.90 or less a day, which is measured against the international poverty line. Also, according to the U.N. Development Program and the Oxford Poverty and Development Program, those who are living in extreme poverty are also likely experiencing “multidimensional poverty” which means that the measured variables of poverty are not just income based, but includes healthcare, education, and living standards (UNDP, 2010). In the context of microfinance, women fall into the category of being multidimensionally impoverished, as they are structurally disadvantaged in society as a whole, but in particular, in developing countries where microfinance is operating. This refers to the limitations that women often face in trying to own goods in order to build their ownership of collateral, which is needed in order to obtain commercial bank loans. This is where microfinance attempts to reach the poorest of the poor, i.e. the multidimensionally poor, by extending the opportunity for women to obtain loans despite not having sufficient collateral. But how effective are microfinance institutions at reaching the poor?

Some studies found that although microfinance was not able to reach and benefit the poorest of the poor, the services did not engage with actively hurting them. Those that benefit from microfinance loans were the ones who had more education, experience, or access to educational resources, in comparison to the poorest of the poor, who were limited in their resources, or who were left out of the group lending circles to begin with (Angelucci, et al., 2013). As microfinance developed, the entry of commercial banks into the field of microfinance acted as a large deterrent for the core poor to seek out the services. The introduction of commercial banks created more competition for the traditional and grassroots microfinance institutions, which decreases the accessibility of services for the core poor, even if it improves financial stability (Hermes and Lensink, 2007). An increase in options only increases the pressure within the field that may push grassroots microfinance institutions to transition into the framework that is proposed by the commercial banks, meaning higher standards for entry into group lending, increased interest rates, and increased minimum requirements for borrowing. So,

although this evolution of microfinance limited the core poor from borrowing, those in favour of larger scale microfinance would still consider their initiatives to be a contribution to poverty reduction as some of the “middle poor” were still able to access it.

Critics would argue that the initial agenda of microfinance was to reach the poorest of the poor, empower women, and promote revenue generating projects, and considering the fact that the extremely impoverished are being left out of this mission, it has failed. Although the field of microfinance is lacking in empirical evidence, according to the studies and systematic reviews that have been completed, the results suggest that microfinance institutions have been inadequate in fulfilling their poverty reduction, revenue generating, and women’s empowerment agenda (Banjeree and Zinman, 2015). Some scholars, such as Mayoux (2001) even argue that microfinancing deepens income inequalities due to the control that those in power have over deciding who gets to take part in the borrowing group or not. One of the main arguments behind this concept is that microfinance institutions deliberately target the middle-class poor instead of the poorest of the poor. Although these people are considered poor, they are seen as easier to process in that they are more well versed in financial management and entrepreneurship, they potentially have some kind of loan repayment/banking history, and they are generally more trusted to pay back their loan due to their financial situation. While the group that microfinance declares to target is the poorest of the poor, there is substantial evidence (mostly anecdotal) that would argue that the poorest of the poor are actually the ones left out of microfinance engagements, and that it is the middle section of the poor and the poor that actually benefit (Amin et al., 2003; Hulme and Mosley, 1996). The poorest of the poor are the most vulnerable people of society who suffer from multidimensional poverty, i.e. they are not only economically impoverished, but they may also have a physical or mental disability, are elderly, have no family left, or are refugees (Hulme, 2000). Little to no evidence exists that actually proves microfinance successful in reaching the poorest of the poor, which brings the legitimacy of microfinance claims into question. What causes even more questions are studies such as one in Nyeri, Kenya, where 13 out of 13 group members of a poverty-focused microfinance institution owned a car (Hulme, 2000) making it obvious that many times, while microfinance claim that they are reaching the most vulnerable, they may just be catering to those who are of low income, not necessarily the most vulnerable. This kind of failure to meet the fundamental objective of

microfinance, which is to meet the needs of the most vulnerable, means that in many cases, microfinance is just a tool that caters to the middle class poor and commercial interests.

Another reason why microfinance has failed to reach the poorest of the poor, is because those who are the most impoverished (i.e. multidimensionally impoverished) are at a complete disadvantage in terms of their lack of a financial history or knowledge of financial programs, and due to this they will be reluctant to engage with microfinance due to a lack of pre-existing knowledge and confidence in the field. This lack of confidence is in either their ability to manage the loans, or in the operations of the microfinance system itself. Many perceive the loans to be too risky (Ciravenga, 2006), and the borrowers themselves are too risk averse to engage with borrowing for future investment. However, this is completely understandable, as those who are aware that they lack the skills and knowledge to protect themselves against scammers in microfinance transactions will act rationally, and choose not to engage with a high-risk loan. This further excludes those who were unable to get the education they need in order to benefit from a microfinance loan. Along these lines, there are many other barriers to microfinance that the poorest of the poor experience that are beyond their control. For example, this might include sickness, floods, droughts, theft, abuse, other debt, and more. And while many microfinance institutions will suggest that these problems can be overcome through the “social support” offered through their programs, this has proven not to be the case (Hulme, 2000, p. 26).

Additionally, with regards to group lending, it is often overlooked that due to the fact that the poorest of the poor are living in the most rural areas of any given region, they have more of a distance to travel to get to the borrowing group meetings, which can be a large deterrent of the core poor gaining membership in group lending circles (Hermes and Lensink, 2007). It is sometimes even argued that not only are the poorest of the poor left out of microfinance programs, but that they are deliberately excluded (Scully 2004). Critics of microfinance will argue that the core poor often get left out of group lending programs due to the perception that other members have of them as a risk to their borrowing group as they have no experience, or bad credit history (Hulme and Mosley 1996; Marr 2004).

2.3 Group Lending

In terms of the lending process, group lending is the most popular and original concept of lending within the field of microfinance. Group lending is affiliated with joint liability, which means that all group members are made responsible for the repayment of any given loan. In group lending programs, groups get loans from the microfinance institution, and the loan is extended among the group members. Each member of that group is responsible to ensure that the other individuals pay back their share of the loan. In microfinance, because the borrowers have little to no collateral, microfinance uses social collateral in order to ensure the repayment of loans. In using social collateral, lenders will rely on the group members to hold each other accountable for paying back the loan, and it is in this way that lenders don't have to depend on financial collateral in the case of default (Li et al., 2013). Those who fail to comply with the loan repayment schedule are subject to the social repercussions within their loan group. James Coleman (1988), is one of the scholars that uses the term "social credit" to describe borrowing groups, and claims that social collateral operates at an individual level and includes expectation, obligation, and trustworthiness. In reference to these three concepts, Kevane (2004) outlines that the practice of shared liability for the repayment of the loans and mutual trust are the elements that allow group lending to be successful, along with the expectation of repayment and the obligation to attend the scheduled monthly or weekly meetings. Using this group lending framework, the Grameen bank maintained an almost 100% repayment rate, which sparked interest in the group lending concept in more than 40 developing countries where microfinance was being carried out (Ibid).

It is also argued that joint liability provides a clear incentive for borrowers to screen each other prior to group formation, as an individual entering a group is either a risk or a benefit. This is seen as an efficient way to maintain consistent loan repayment throughout the borrower groups, as it is less likely for members to default on their loans if they have been screened and trusted by the other members (Hermes, and Lensink, 2007). Through the group lending process, members in a group can effectively monitor others' usage of a loan and therefore reduce any moral hazard (e.g. risky investment). If one were to make a risky investment, it would put the entire group at risk (Ibid). Living within close proximity with each other, or ideally in the same community, is beneficial to borrowing groups in that it is easy to identify where investments are

going (to avoid risky investment), and to keep tabs on fellow borrowers. It is also beneficial in the sense that the ways in which borrowers are held accountable are reflective of their social status within their communities. If borrowers are reluctant to pay back their loans, the consequences could be socially detrimental, as they likely have a personal connection to some (or all) of the borrowers. The fact that the borrowers typically know each other also aids in the transparency of the allocation of the loan, which increases the pressure to pay back what was borrowed before the deadline.

Critics, however, would argue that group lending is not the most effective mechanism, and in fact holds the potential to further exclude and abuse the poor. Scholars have found that the social collateral mechanism of group lending has an impact on whether or not the services offered by the institutions will reach the borrowers with the lowest incomes (Biosca et al., 2013). This argument refers to the notion that since lending groups are socially dependent, borrowers will align with groups comprised of individuals that they believe will pay back the loan. The poorest of the poor, again, have no record of borrowing, have little experience with money, and are therefore more likely to be left out of the lending groups. The ways in which groups are organized also has a proven impact on how effective the payback rate would be. For example, a study by Karlan (2007) examined repayment rates of individual members, proving their geographic proximity as a telling variable. One of the other main theories behind group lending is the concept of peer pressure (joint liability) influencing the borrowers to pay back their loans. Karlan (2007) looked at how the payment rates of other individuals either incentivised or deterred individuals to pay back their loans. It was found that repayment was higher in groups where other borrowers paid back their loans, and lower in groups where half or the majority of borrowers did not pay back their loans. Although many scholars would deflect this finding onto the effects of peer pressure, in a study by Schrieder (2003) it was found that the peer pressure aspect of joint liability in group loans is less influential than what was initially predicted. Instead, Schrieder (2003) argues that the main reason why members of the borrowing group influence each other into either repaying or not repaying their loans is that when one member of the group defaults, a domino effect occurs in that regardless of whether or not one repays their loan, the rest of the group would lose access to loans in the future due to the one member who defaulted. Borrowers are unmotivated to repay their loan if they already lost their chance at a new loan in

the future. In this sense, the onus of unpaid loans is no longer on the borrowers but are deflected back to the lenders (Mueni, 2007). Additional studies (Manski, 2000; Brock and Durlauf, 2007) brought to light the same kind of results, where the individual behaviour towards a loan is highly influenced by their peers in terms of the payback rates, not necessarily just because of the peer pressure. In this sense, the effectiveness of group lending is malleable to the behaviour of the borrowers, and unless there are additional accountability mechanisms in place, there could be consequences for the lenders in terms of absorbing the consequences of the borrowers' default.

It is also argued that the nature of the borrowing group actually creates a coercive peer pressure system that targets members instead of striving for development of social and human capital (Ghate, 2007). Having community members keep tabs on each other and act as police within their social circles with regards to loan repayment is counterproductive to the alleged agenda of group lending, which is to build trust, reliability, and collaboration within communities. In one study, it was reported that many of the group members admitted that they had been threatened by other group members or microfinance staff, or having their possessions (pots, pans, and other household items) taken away from them as a result of not paying the loan back on time (Hulme, 2000). More severe cases include being arrested by the police or threatened by physical violence (Montgomery, 1996), and regular reports of female suicides resulting from not being able to repay a loan (Hulme, 2000; Ashta, et al., 2011). The negative elements of group lending, and the resulting fear of ending up in a debt that could put your life in danger is what deters many of the most vulnerable members of society from engaging with microfinance loan transactions (Ibid).

2.4 Empowering Women

The main goal of microfinance is to reduce the amount of global poverty by increasing the capacity of women's access and control to their finances, in addition to innovating ways to empower women through entrepreneurial programs. The choice to target women as recipients of the loans comes from an intersectional feminist approach where women, especially in the global South, are some of the most impoverished and vulnerable of the world's population, and therefore microfinance is a way to help women, who are at the epicenter of multidimensional

poverty. The gendered aspect of finance deepens the already existing gendered issues, as women are often barred off from becoming financially independent due to the structural barriers that keep their bargaining power low. This is why some scholars will refer to this problem as a finance gap (Salia et. Al, 2017). It is argued that through engaging women in microfinance loans, it will resituate their position in society, offering more decision-making power, and therefore providing empowerment while closing this finance gap (Ibid). However, simply providing women with loans is not what is going to empower them. There still exists the problem of gender-based harassment in the workplace, that deter many women from wanting to become entrepreneurs (Zeidan and Bahrami, 2011). Other reasons why microfinance targets women come from a more neoliberal approach, in that considering that women make up half of the population, empowering women to become more financially literate and entrepreneurially capable contributes to the economic growth and development of any given country (Sarumath and Mohan, 2011). Most microfinance institutions claim that their objective of prioritizing women is backed by research that proves how there is a higher payback rate for women than there is for men, and that women are more likely to invest the income from their new revenue generating projects into the betterment of their family and household (Hulme & Mosely, 1996). According to the World Bank, approximately half of the world's poor are women. So, all things considered, microfinance was viewed by some as a comprehensive and effective poverty reduction tool for the women themselves, for their households, and for the communities as a collective (Sarumathi & Mohan, 2011).

In terms of how effective microfinance actually has been in empowering women, it is important to establish a definition of empowerment within the context of microfinance. Of course, women's empowerment will look different depending on the country and the culture. Within the context of microfinance, however, scholars will argue that empowerment relies on a woman's ability to manage her own finances in a way that provides her individual freedoms, autonomy, and an opportunity to redefine themselves outside of traditional gendered cultural asymmetries (Hashemi et al 1996; Kabeer 2001). The majority of the literature surrounding microfinance will argue that women become more empowered when they can exercise choice, when they are aware of their options, and when they understand what the impacts that each option will have on their personal wellbeing and their finances (Kumar, 2013). Some scholars

also argue that empowerment needs to come from a bottom up approach, in that the practice of empowerment needs to be carried out by the individual themselves, instead of empowerment mechanisms being imposed upon them (Malhotra et al., 2002). While microfinance attempts to provide women with the tools that they need in order to create their own revenue generating projects, it is not a reflection of the kind of bottom up approach that many scholars would argue in favour of. A bottom up approach means that the barriers to full women's empowerment are being deconstructed, that institutional changes are being established, and that the household environments allow for women to make their own decisions about their finances and their families, but this is not always achieved by microfinance (Nguyen, 2018). Microfinance often falls into the trap of assuming that if women are given loans, they will be able to use them to create their own empowering situations. However, it is often the case that microfinance loans on their own are inadequate in promoting women's empowerment, due to the structural barriers that microfinance fails to address, such as lack of quality or affordable education, lack of land and property rights, being blocked from the job market, and patriarchal social structures within communities that have existed for years. These are only a few examples of the structural barriers that women would face before being able to take on a loan and invest it in a sector of her life where she, herself, is not allowed to exist. Microfinance, especially for-profit and commercial microfinance, does very little, if anything, to address these kinds of structural issues that prevent women from thriving. This is one of the critical elements of microfinance institutions that is usually questioned: Whether or not the loans are able to positively impact women's empowerment on its own, or whether there is a need to add additional services to aid in deconstructing these kinds of structural barriers that prevent women from making a "good" use of the money. According to a multiple framework approach, women's empowerment needs to be developed throughout multiple facets of one's life, including "economic, socio-cultural, familial/interpersonal, legal, political, and psychological" (Ahamad and Pandey, 2014, p. 21). When investing in women, Matin (2007) makes a solid argument in favor of some of the symbolism found in microfinance, in that:

“ Moreover, staff members, who are of a higher socio-economic status, engage in a very meaningful act simply by going to the doorsteps of these women to do business with them, and seeking their help in solving problems; this practice begins to redefine the

relationships within socio-economic hierarchies, and between formal institutions and poor women.” (Matin, 2007, p.4)

This brings to light an important part of microfinance that shows how engaging women in economic activity within countries that have discriminating policies sends a message to governments to start considering women as valuable members of the economy. The act of microfinance itself sometimes claims to have a positive systemic effect on women’s empowerment, by indirectly (or directly) reaching the government policies and challenging their ability to continue to control women.

In terms of defining empowerment, Nguyen (2018) breaks down the concept in three different ways. The first being economic security, second being household decisions, and the final being community involvement.

1. Economic security refers to the extent to which a woman is independent from her husband, or associated male relative in terms of her finances, which can be distinguished by inquiring about additional savings besides the microfinance institution, if she has her own income, and if she has a legal claim over any assets in her house.
2. Household major decisions refers to the type of household the woman is in, and whether or not she is allowed (by her husband or by society) to have an opinion. Women in developing countries often face gender stereotypes within their homes that don’t let them make decisions within the household. Empowerment in this regard would be accessed in the actions of making a large purchase, investing in her enterprise, making an improvement in her home, and being a principle decision maker in her family.
3. Community involvement refers to the engagement that the women is able to enact within her community due to a loan. In doing so, the woman would strive to create other employment opportunities for other women, for sponsoring an event with her business, or for being promoted into a new leadership role in her community.

This is a more measurable definition of women's empowerment, where others are more subjective and comparative to the status of the woman. Basher (2007) claims that:

“the empowerment augmenting role of any microcredit program should not be evaluated only on the basis of the activities that have direct economic implications. Rather, it should also include the non-economic behavior of the participants and changes in not only the individual but also social attitude.” (Basher, 2007, p.174).

This kind of qualitative definition is very useful in terms of making correlations and comparisons, however in terms of proving the effectiveness of microfinance, it is important to have empirical evidence of whether or not microfinance works to empower woman like it says it does. The evidence on the actual effect that microfinance has had on women is limited in terms of empirical data, however, there is just as much anecdotal evidence that argues in favor of microfinance successfully empowering women as there is anecdotal evidence that argues that microfinance does not actually empower women to the extent to which it claims.

For example, one study showed that after obtaining microfinance loans, women at Sinapi Aba Trust in Ghana claimed that it was directly correlated to the increase in respect that they received from their husbands and decrease in violence that they received from their husbands (Kabeer, 1998). In situations like this, it is the contribution that women can make to their household that directly translates to better treatment from their partners. (Ibid) This is the kind of positive outcome that is typically seen throughout the literature. However, although some microfinance schemes have been “successful” in empowering women in developing countries (according to the terms of the assessment), as with many development practices, one initiative that is established to fix one problem often has unintended consequences or create additional problems. This is one of the areas of concerns with microfinance, that loans are being administered without follow-up or consideration of the woman's starting place (Salia, et al., 2017). Although the main purpose of microfinance was to lift the most impoverished out of poverty and empower them, in particular impoverished women, there are a variety of critiques towards microfinance regarding these claims.

On the other hand, critics will also argue that loans administered to poor women will benefit the household and her family first, and by the time it reaches the woman herself, it may lose value, or it may not even impact them at all (Aghion and Morduch 2005; Kabeer 2001 and Morduch 1999). In addition to this, there is often pressure for the woman to invest in the household before she invests in herself. In this way, the loans aren't directly impacting the woman, rather, the entities that she is a part of. Another one of the main critiques is that in many countries throughout the global South, it is normal for women to have zero access or rights with regards to finances. Women might be obligated by their husbands, their cultures, or their societal norms, to transfer the money that they receive straight to their husbands to use for their own purpose (Ditcher and Harper, 2007). This is a dangerous path to fall into, as it deepens dependent relationships of women and their husbands. This can lead to other problems such as the removal of decision-making power in the household, and increased potential for domestic violence (Leach and Sitaram 2002; Rahaman 1999). This is partly because of the tendency of men to be less risk averse than women, due to the structural barriers that keep women out of the economy, which leads women to consult with their husband before making a decision about where she invests the loan (Kumar, 2013). In sub-Saharan Africa, for example, the microfinance interventions have been found to increase the probability of domestic violence in households where women receive microfinance loans. This is due to the fact that when women are empowered financially, it means that the power relations between the woman and her spouse are disrupted. This is particularly a concern in places where gender roles are deeply defined and practiced (Huges et al., 2015). Although the intention of microfinance and other women empowerment schemes are to aid in alleviating the gendered aspect of poverty, is it absolutely integral that those who are implementing these programs are careful in their conduct as to not create or further aggravate other gendered issues that could put women in danger (Salia et. Al., 2017).

It is evident that the literature is deeply divided on this theme, which brings into question whether or not one can make the overarching claim for all of microfinance on whether it increases the chances of domestic violence for women, or if it decreases it. It is quite possible that the answer to this question depends on the local context, and the context in which the woman was living in before she began to engage with microfinance loans. This is an area within the literature that appeared to be lacking empirical findings. Some scholars, however, have

contributed arguments that bridge this divide. Bateman (2011), for example, argues that, although microfinance loans have been able to benefit women in terms of more bargaining power in the household, greater self-esteem, and other socio-political gains, these benefits remain insignificant in that microfinance does not do enough to “overcome ingrained patriarchal systems of control... In spite of having access to credit, some female microcredit clients do not have control over the loans contracted or the income generated by the microenterprises” (Bateman, 2011, p. 84).

Other scholars will note that even though women have experienced an increase in their income, their engagement in finances in the community, or an increase in their overall consumption, they still have little control over their own finances, and still don't participate in family or community decisions as an equal entity (Lakshmi, 2013). Some focus of microcredit usually looks to women's empowerment, because 90% of the lending goes to women, but issues relating to women's empowerment are often still sidelined (Kumar, 2013). By this it is meant that too many microfinance institutions are administering loans to women without looking into the structural disadvantages that they face that forced them into their impoverished positions in the first place. Microfinance institutions too often overlook the fact that just because they lend to women, it doesn't mean that they are fulfilling their objectives of empowering women (Ibid). Kumar (2013) refers to the bottleneck effect of hierarchical structures of society, as it puts women at disadvantages from the get-go by restricting them from developing entrepreneurial skills and encouraging the practice of taking risks. Some women are entering relationships with microfinance institutions and are going in blind, with no background or experience in finance to draw upon. It is here where microfinance loans are seen to be inadequate in achieving their fundamental purpose, which is to lift women out of poverty while empowering them to be more involved in the decision making of their communities. Loans need to be partnered with educational programs that equip the women with the skills that they need to overcome structural barriers to gender equality in their communities, so that they are secure and knowledgeable when it comes time to engage with the borrowing process.

Other scholars present information that concludes that the effect of empowering women through microfinance loans aren't the same for all women. In studies such as Nguyen (2018), it was found that microfinance loans were more effective on women who had certain

experiences/qualifications than women who were completely new to microfinance. For example, she argues that women who have already had one or more loans from an institution are more likely to be empowered from the next loans in terms of their decision-making ability, community involvement, and overall economic security. She also found that household variables, such as additional sources of income and marital status, to be very significant in whether or not a loan would empower women or not. (Nguyen, 2018) Throughout the literature, themes emerged with respect to the variables that need to be considered when administering microfinance loans, in order to assess the effectiveness of women's empowerment through microfinance. These themes are:

1. The nature of the domestic environment that the woman is in – are they in an abusive relationship? Will the husband pressure the woman into giving up their loans or investing it into something other than a revenue generating initiative? Will the husband abuse the woman if she claims autonomy over her finances?
2. The follow up process – does the microfinance institution engage with an evaluation process following the administration of the loans? Will the institution (or the borrowing group) ensure that the woman has invested the loan into proper revenue generating projects, and not directly into the household?
3. The condition of the woman – what kind of health condition is the woman in before engaging with the microfinance process? Will they be able to keep up with their revenue generating projects? Or do they need proper access to healthcare before they engage with the loan process?
4. The skills and education level – what kind of education has the woman had access to prior to engaging with the microfinance institution? Do they have any knowledge of entrepreneurial or investment skills? Have they ever worked in a collaborative/team environment before? Or do they need access to proper education in these fields before engaging with the pressures of the borrowing groups?
5. Belonging and acceptance – is the environment of the borrowing group welcoming and supportive to inexperienced/new members? Will the woman feel safe becoming less risk-averse, and be able to expand her capacity for more decision-making power in her household?

As mentioned before, simply administering loans to women is not enough to claim success in empowering them. Although the literature is divided, most scholars would argue that additional assistance programs must also be included in the process in order to deliver a sustainable and empowering experience for impoverished women.

2.5 Ethical Debate

Throughout the 1990's and the early 2000's, microfinance received an incredible amount of positive attention from scholars, policy makers, and international organizations. In 2005, the UN declared 2005 the year of microcredit, and in 2006 the Nobel Peace prize was awarded to Yunus and also the Grameen bank, which attracted a lot of positive financial attention. Over the past few years, however, microfinance has been on the receiving end of a great deal of moral criticism, some even calling it an ethical crisis (Hudon, 2011). In comparison to the initial positive feedback, the evolution of discourse with regards to microfinance brings to light the drastic shift in practice that microfinance has undergone, in addition to a substantial increase in empirical research conducted on the concept that exposes the ineffectiveness of some microfinance cases. The main reason why microfinance saw a shift in its practice was because microfinance institutions were starting to have an increased focus on financial performance and started to lose sight of their original social mission of poverty reduction and empowerment (Maitrot and Hulme, 2014). This is what is often referred to as "mission drift", which will be analyzed further in the following chapter. Microfinance institutions increasingly sought out mechanisms that would allow them to reduce their dependency on subsidies and attract private investors to support the financial sustainability of the institution (Helms, 2006). With this, the managers, employees, and lenders in charge of loan administration were increasingly subjected to business frameworks that pressured them to meet quotas, financial targets, and seek out vulnerable members of the poor communities in order to exploit their need for capital. In doing so, there exists a grave potential for the mistreatment of clients, human rights abuses, and incentive to seek out the most vulnerable women to become their clients, as they were the easiest to exploit (Hulme and Maitrot, 2014). The new attitudes towards microfinance stem from the shift that the concept has taken from a bottom-up, grassroots approach to financial inclusion and women's empowerment, to becoming heavily influenced, if not entirely co-opted by a neoliberal globalization agenda that made too much space for commercial banks that valued profit over

human rights. Microfinance came under critique for its ethics, as it started to act like more of a mechanism for spreading a neoliberal economic framework than the social justice initiative that it started out to be.

There existed a paradigm of “financial sustainability” (Zeller and Meyer, 2002, p. 2) where microfinance institutions were attempting to expand their capacity to administer loans and cover their losses by attracting foreign and private investments, while simultaneously generating a profit for the institution itself. It is here where microfinance institutions experience a “mission drift”, either with good intentions behind their capacity building, or with the neoliberal mindset of generating profit by all means necessary. Some scholars would argue that the increase of commercial banks in the field of microfinance was necessary in order to increase the funding for microfinance institutions, and by extension, to administer more loans. This was perceived as a benefit in that commercial banks have more diversified portfolios than NGO institutions, and therefore have better ability to reach out to a wide variety of funding sources (Lensink, et al., 2011). However, viewing commercialization as a necessity is not the most shared perspective in development literature. Scholars such as Bateman (2010) would argue that in increasing commercial banks into the field of microfinance, it only created more competition for traditional microfinance institutions. And, although in normal economic terms this kind of competition is good, as it leads to increased efficiency and sustainability, it also limits the ability to reach the poorest of the poor.

One of the main variables that experienced a significant change was the increase of interest rates on microloans. This sparked heated debates about ethics and fairness, one side arguing that it will increase the capacity of the institution to administer more loans to the poor, and the other side arguing that the poorest of the poor (which the institutions were supposed to be serving), did not possess the capacity to absorb the excess costs of increased interest rates, especially when it was in the interest of profit for the institutions themselves. The peak of the debate occurred in 2007 when it came to light that interest rates from the microfinance institution called Compartamos forced borrowers to pay interest rates reaching 100 percent and higher, sparking further investigation of other companies and the growing trend for increasing interest rates (Lewis, 2008; Rhyne & Guimon, 2007). What made it even more pivotal, was that Compartamos had sold part of their shares, making one of the sellers a millionaire (Rosenberg et al., 2009). After the work of Compartamos was brought to light, the main question that alarmed

the field of international development was whether or not Compartamos was the sole microfinance organization that had alarmingly high interest rates, or whether it was an already rising threat to the grassroots microfinance industry. With the increasing influence of commercial banks, microfinance institutions started adopting frameworks that would allow them to expand their loaning capacities, and in doing so, started charging more interest in order to cover their operating costs. The main argument for doing this was that it enabled microfinance institutions to become more sustainable, and so that they could start operating off their own financial growth instead of relying on subsidies to cover operating costs (Rosenberg et al, 2009). According to a Microfinance Information Exchange database, the bulk of interest rates for microfinance institutions fall between 20 and 70 percent, with an average of 30 (Ibid). And, with the investigations that followed the Compartamos findings, it was determined that most microfinance institutions are not charging upwards of 100 percent interest rates to their customers (Rosenberg, 2007). However, despite the findings determining that the majority of microfinance loans were not charging over 100 percent in interest, the aggregate rise in rates pinned microfinance institutions against questions of ethics.

Those who argue in favour of increased interest rates would agree that microfinance institutions face a significant challenge when it comes to sustainability, and thus the only way for microfinance institutions to remain active in the long term is if they increase their interest loans to cover the high operating costs. This, in turn, actually brings their rates higher than some commercial bank loans (Rosenberg et al., 2009). It is in this way that supporters would argue that in order to reach more of the poor, and in order to stop relying on externally funded subsidies to keep the institution running, institutions would have to increase the interest rates to become more self-sustainable. The inability of the poor to retrieve loans from commercial banks, however, remains, and therefore even though in some cases there would be less risk involved with borrowing from a commercial bank with lower interest rates, the poor had no choice but to use microfinance institutions due to their inability to produce the material collateral that commercial banks demanded. The increase of interest rates caused more than forty developing countries to impose mandatory interest rate ceilings to try and reduce the concerns about the risks of high interest rates (Fernando, 2006). Increasingly high interest rates posed the threat of deterring the poor from borrowing all together due to being too risk averse to engage with the

high interest rates. Those who argue against the necessity of increased interest rates would concur that the subjugation of the poor in the pursuit of profit by any means is thoroughly against the original mission of microfinance, and that leaning towards commercialization in the name of capacity expansion is an unjustified means to “reach more of the poor”.

The main question that needs to be asked when assessing the legitimacy of capacity expansion is, who is actually benefiting? Is it possible to raise interest rates while benefiting the poor? Or is it inherent that increased interest rates lead to profit for microfinance institutions and their shareholders? If it is, do we then have to ask the question of whether or not microfinance institutions can distribute a certain portion of profit to shareholders and still remain “ethical”? Or is any amount of profit that gets redistributed to entities other than back into the loans for the poor considered an unethical practice? Scholars such as Hudon & Ashta (2013) would argue that the fairness of microcredit must depend on the distribution of the revenue generated by the transaction i.e. whether it benefits the lenders or the borrowers. As long as there are no “ethics standards” established for the field of microfinance, it will be difficult to answer these questions. There have been, however, studies that seek out where the profits from high interest rates go. A study by CGAP (Consultative Group to Assist the Poor – a financial inclusion entity) addressed this question and found that the majority of profits from high interest rates are actually invested back into the institutions in order to cover the high operating costs, which only increase with capacity expansion (Rosenberg et al., 2009). This study brought to light the reality of capacity expansion, in that in order to effectively cover the operational costs of distributing a large amount of small loans, there are a lot of administrative tasks that need to be paid for. In order to do so, there needs to be funds available to cover these costs, and pay for those who are meeting face-to-face with borrowers, accounting for the repayment of loans, and to pay back the loans that the institution itself has outstanding with external sources that were used to subsidize or on-lend to the poor (Armendariz & Morduch, 2010).

All things considered, depending on the financial capacity of the microfinance institution, there still might be room to pay into shareholders. However, even if microfinance institutions were to limit themselves to re-investing their revenue into operating costs, and not pay into shareholders, if the objective was to increase capacity, the institutions could only reduce their

interest rates so much before they couldn't continue to cover the high operating costs. This being said, is there any way for microfinance institutions to increase capacity whilst keeping interest rates low and accessible to the poor? This leads into the last section of this study, where the detriments of mission drift are discussed, followed by the argument that as microfinance stands now, there doesn't seem to be a way to increase capacity while keeping interest rates low, or not seeking out a profit. Therefore, if an institution wanted to avoid mission drift, maintain its ethical objective, it must resist the trend of capacity building, and maintain its ground as a grassroots organization.

CHAPTER 3: ANALYSIS

After carefully examining the literature in this field of study, it is evident that microfinance is a particularly polarizing concept within development discourse. In the beginning there was overwhelmingly positive feedback and praise for microfinance when it was first established. However, as time progressed, and more issues with regards to microfinance have come to light, it is becoming more obvious that microfinance has not lived up to the high hopes and expectations of its original founders. The main reason why there has been a significant increase in criticism directed toward microfinance in the past decade is due to the concepts of mission drift and commercialization, which have been embraced by an increasing number of microfinance institutions, and throughout the field in general. Mission drift, as previously described, is when the objective of microfinance institutions shifted from helping the poorest members of society, to making a profit off of the borrowers instead, through the medium of microfinance. Mission drift is often viewed by scholars as problematic and perceived as a pathway for non-profits to become coercive and unethical. Others will claim that commercialization is a necessary move by non-profit NGOs in order to increase their reach, their effect, and their ability to integrate microfinance into international markets for the benefit of the institution's capacity. Mission drift has been occurring in the broader field of microfinance as more and more commercial and for-profit microfinance organizations started to take up space, pushing non-profits out. Mission drift also occurs on an individual basis within organizations themselves. Non-profit organizations have started commercializing, meaning that instead of remaining as a small, usually grassroots organization with the objective of providing loans to the poor members of their community, they expand their capacity to operate on a more commercial framework in order to increase their outreach and financial capacity.

The following chapter will assess how mission drift has changed the field of microfinance by introducing commercial and for-profit institutions into the field, and will look into the effect that this has on the borrowers and the field in general. The first section will provide a deeper analysis of the concept mission drift, and how it is not only affecting the broader work of microfinance, but that it is also affecting individual organizations. It will bring to light the main reasons why individual organizations may choose to commercialize (i.e. the benefits), and how although their intentions may have been good, how the impacts of commercialization on the borrowers are

usually more harmful than not, establishing the argument that commercialization within the context of microfinance is in fact, unethical. The next section will differentiate the two main types of microfinance that now exist within the field because of mission drift — for-profit and non-profit — and discuss how there is now a need to officially define and categorize these two different types in order to maintain transparency and an ease of access for borrowers and researchers. There is already a lack of empirical evidence with regards to microfinance, and using the umbrella term of “microfinance” to talk about both for-profit, and non-profit organizations, further adds to lack of clarity and quality of current empirical microfinance literature and research, not to mention the lack of transparency that some borrowers experience when buying into a microfinance scheme. It will make the argument that commercial and non-profit organizations should be required to disclose whether or not they are for-profit or non-profit before engaging in transactions, or researchers before publishing any reports. The final section of this chapter will discuss the ethics of for-profit microfinance, and argue that as long as an institution’s aim is to grow their capital, investment portfolios, and capacity by lending to the poor, it is an unethical endeavour, and should not be practiced under the name of a poverty reduction mechanism. The main argument presented throughout this analysis is the fact that the negative implications that commercial microfinance institutions have on borrowers represents how mission drift can create opportunities for coercive behaviour towards, and exploitation of, the most vulnerable poor. It will also argue that it is for this reason that non-profit organisations should move in the opposite direction of mission drift in order to avoid being co-opted by the neoliberal globalisation agenda of commercialization.

3.1 The Implications of Mission Drift for Microfinance

Non-profit microfinance was the first kind of microfinance model, coming from Muhammad Yunus of Bangladesh. Yunus developed this concept to compete with the local loan sharks that were taking advantage of the poorest, most vulnerable, and most financially illiterate people in different communities. Nowhere in his plan did he expect the non-profit model to be competing with for-profit and commercial business schemes. Throughout the early 2000s, however, a large shift came about in the world of microfinance, and the main objective of many institutions shifted from trying to eradicate poverty, to a more neoliberal based framework that maintained the procedure of lending to the poor, but placing more of a focus on earning revenue

and attracting investors. The most widespread impact of mission drift within the context of microfinance is the increase of commercial banks entering the field, increasing the loan size, competition, loan availability, and innovative options for borrowers (Wondriat, 2018). The more popular microfinance became, the more traction it gained in the commercial finance sector. For-profit microfinance used the foundations of microfinance that the non-profit sector had already established, and started to create another division of for-profit microfinance, co-opting and manipulating the existing structures to fit a more market-based, neoliberal scheme. None of this should be surprising, given the expansionary nature of capitalism. Capital is eternally looking for new areas of human life to commercialize and privatize. Thus, the initial successes of microfinance provided a novel and lucrative site for the private sector to engage in accumulation.

The second main implication of mission drift is found within the non-profit organizations themselves, as the increase of commercial microfinance institutions either forced them out of the field, or due to the increase in competition, coerced them into becoming more like the commercial and for-profit institutions (Hulme and Maitrot, 2014). In order for non-profits to expand their capacity, so that they can compete with the new commercial institutions, it became necessary to alter their structures in order to fund the expansion of their operational costs, which in turn means making money off of their borrowers. This kind of forceful behaviour can be considered unethical, as the commercial and for-profit institutions took advantage of the vulnerable positions that non-profits were in by offering them an alternative that allowed them to continue to provide loans to the poor, however in a for-profit, and therefore unethical, manner. Many of the commercial microfinance institutions that exist today began as non-profit institutions with limited outreach and limited financial capacity, but were overtaken by commercial and for-profit frameworks, allowing for continuous growth, external investments and additional services such as larger loans, investment opportunities, individual loans, and more (Von Pischke, 2008). Non-profit organizations will often be co-opted by commercial banks through gradual additional loans, benefits, and investment opportunities, and eventually a shift in ownership to make the full switch. This is an extremely attractive business initiative, as the information and data of non-profits are already established and ready for commercial actors to use (Ibid). Furthermore, some of these non-profits may have felt compelled to make these changes, based on the increased competition from the for-profit sector. They may have viewed

this as the only alternative if the organization was to survive in the hostile and competitive climate created by the for-profit firms.

In this sense, mission drift is very susceptible to perpetuating unethical behaviour, as shifting away from the sole objective of helping the poor and instead using their vulnerable situation to increase profits for investors is unethical at its core. This kind of shift can pose many unforeseen problems for previously non-profit organizations, because even though the intention of these organizations was not to become coercive or to exploit their borrowers, with capacity expansion and a shift in their operational frameworks towards a more neoliberal approach to microfinance, they are at risk of engaging in coercive and unethical behaviour in order to fund their basic operational costs. Additionally, when non-profit institutions engage with capacity expansion, they will often lose the variables that make grassroots organizations so effective, such as small-scale community ties and closer relationships with the borrowers. This can threaten the trust and genuine nature of the lender-borrower relations.

Due to the coercive nature of the neoliberal frameworks that non-profits adopt through mission drift, it is impossible to shift towards a revenue generating microfinance approach without unethically making money off of the poor borrower. Therefore, in choosing to commercialize, non-profits give up these ethics in order to grow their organization. However, as a result of mission drift within individual organizations, there remains a lack of clarity between what it means to be for-profit, and what it means to be non-profit. Some non-profit organizations that have turned into for-profit organizations, but still claim to have their roots in non-profit, claim that they are entirely ethical, or even try and disguise themselves as non-profit organization. In this sense, there are still blurred lines between commercial and non-profit institutions. This can cause problems for two main reasons: 1) it can cause significant confusion among borrowers, and 2) it can be very problematic for those who are researching and writing about microfinance. Considering the impact that mission drift has had on the field of microfinance in terms of diversifying the different types of microfinance organizations, there exists enough information to draw differences and similarities between for-profit and non-profit institutions. Due to this divide, it is now necessary for researchers to thoroughly define these two main types of microfinance intuitions in order to maintain clarity and transparency for both the borrowers, and for further development of research on microfinance. The following section will

attempt to bring together key characteristics that exist in both the for-profit and non-profit microfinance frameworks, and address the need for more specific definitions, as it aids in clarity and quality of empirical research on microfinance, something of which the field is currently lacking, in addition to the transparency of organizations for the borrowers benefit.

3.2 Non-profit vs. for-profit

The need to further define microfinance is ever present. What started out to be a term used to describe the provision of small loans from non-profits with the aim to benefit the poorest of society, microfinance is now an overarching term to describe both non-profit microfinance organizations, in addition to coercive and exploitative for-profit microfinance institutions. The need for these definitions is due to obvious reasons, one example being the fact that for-profit institutions and non-profit institutions are inherently different in operational tactics, scope, and mission. However, this need also has to do with the concept of transparency within the field of microfinance, in that not only do borrowers need to know whether the institutions that they are engaging with are for-profit or non-profit, but readers, researchers, policy makers, and other academics need to be able to identify and understand the institutions they are working with, and the impacts that they have on borrowers, according to the category they fall under. A lack of transparency for borrowers could lead them to borrow from a for-profit institution unknowingly and end up in a more vulnerable position than they began. It could also contribute to the already existing lack of empirical evidence within the field. For example, if one were to conduct research on the impact of microfinance on poor women, the results would change depending on whether the institution was for-profit or non-profit. If one published this research without specifying which type of microfinance institution they were looking into, it makes it more difficult to conclude any overarching result of commercial microfinance versus non-profit microfinance, which is what is needed within the field right now.

This being said, one of the key questions that scholars need to engage with is as follows: to what extent should microfinance institutions be obligated to disclose their primary motives prior to providing loans to the poor? Or, should they clearly indicate which “type” of microfinance institution they are talking about in their publications so that the reader is not subject to an overgeneralized report of the success or failure of microfinance institutions. In

order to do so, there needs to be more work done on clarifying the types of microfinance institutions so that scholars and lenders can clearly distinguish which type they are studying and add to its corresponding literature. As the development and innovation of microfinance progresses, it is necessary for scholars, organizations, and businesspeople to refer to a standard categorization of microfinance, as the objectives of for-profit microfinance and not-for-profit microfinance institutions are vastly different. Although there is not a wide array of literature on this topic, Weinberg (2008) has published some work on the differentiation of for-profit and non-profit microfinance institutions.² The following section will bring to light some of these variables that make the non-profit and for-profit institutions distinct from each other, and offer the argument that because the field of microfinance has come to contain two main types of institutions, it should be required of institutions to disclose whether they are a for-profit institution or a non-profit institution, along with the argument that scholars, researchers, and corporations need to clearly identify which type of microfinance they are researching, or which type they are, when publishing papers and reports on the matter.

3.2.1 For-Profit

For-profit microfinance institutions, also known as commercial microfinance, borrows fundamental principles from the original, non-profit microfinance model, but has an underlying objective of making profit. One of the defining features of commercial and for-profit microfinance institutions is the fact that they typically exploit their customers in pursuit of their profit. Throughout the literature, there are competing definitions of what it means to exploit, which will be touched on in the following section that explores the ethics of for-profit microfinance. However, Snyder (2010) points to a definition provided by Wertheimer (1996) that defines exploitation as a situation where “A exploits B when A takes unfair advantage of B” (Snyder, 2010, p. 189), and continues to explain how exploitation in this sense is based on the unfair distribution of benefits. It is in this sense that we can understand the exploitative nature of the relationship between the for-profit microfinance institutions and their customers. Even though the concept of lending to the poor is still present within for-profit institutions, it is not

² Weinberg, Brian R. “For Profit versus Nonprofit Microfinance: How are the poor effected? *The Eagle Feather* 5 (2008).

their priority by any means, and therefore they use poor borrowers as a means to earn a profit. In relation to Snyder's definition, the transaction that occurs between the for-profit lender and the poor borrower in a commercial microfinance institution yields an asymmetrical outcome that leaves the lender better off than the borrower. Using this definition of exploitation, it can be argued that for-profit institutions deliberately exploit impoverished borrowers by taking advantage of their situation to make a profit.

To add to this definition of exploitation, we can look to Reeve (1987), who defines it as:

“When A exploits B through a market exchange, the transaction cost seems to hover uneasily between voluntariness and involuntariness. B would rather exchange with A than do nothing at all; at the same time there is some third hypothetical transaction which he would prefer to engage in” (Reve, 1987, p. 149).

There is a debate within the literature with regards to indirect and direct coercion, which will also be touched on in the following section. But to briefly integrate it into the context of commercial microfinance, it relates to the fact that although some of these organizations are not explicitly forcing poor borrowers to accept loans from their company, the vulnerable position that these people are in pushes them to accept these kinds of transactions, even if their benefit is marginal. Relating back to Reeve (1987)'s definition, even if the lender is gaining a significantly greater benefit than the borrower, a vulnerable borrower would choose to engage with the transaction in order to gain a small benefit instead of refusing the transaction and earning no benefit at all. For example, if a poor borrower in a borrowing group needs to pay back their loan, but is unable to, commercial banks offer tools such as individual loans, which can be used by these people to pay back their group loan to avoid any kind of social backlash. Even though this technically helps to pay off the loan from the group, this individual is now more in debt to this company. If this individual waits for the next round of money from the group loan to pay back *that* debt, they are at risk of becoming trapped in a debt cycle, which for the borrower is detrimental to their lives, but for the for-profit institutions, is a profitable situation. Studies have shown that multiple borrowers have increasingly high debt levels, in addition to repayment obligations, which they usually cannot repay due to their over indebtedness (Hosea, Mwaungulu

et al., 2012). This is just one of many examples of how commercial microfinance institutions, in their development of various new factors of microfinance, can come up with short term solutions for borrowers who have no other choice, that has the potential for long term consequences. To tie this back to Reve's definition, by commercial microfinance institutions knowingly offering alternative solutions such as additional loans to borrowers who are in vulnerable positions, they are indirectly exploiting the borrower in order to make a profit in the long run.

For-profit institutions also claim to bridge the gaps between formal and informal economies, acting as a "semi-formal" kind of lending institution (Matin et al., 2002). For example, already established informal economies that may have used a barter system get integrated into the neoliberal market-based formal economy that is imposed upon communities through microfinance. Informal economies are usually comprised of organizations that are controlled by a kind of customary law, and could include self-help groups, small farmers associations, and other small, local groups (Srncic et al., 2008). Through commercialization, for-profit microfinance takes advantage of the informal systems already established in communities and infuses it with neoliberal market principles. In doing so, commercial and for-profit institutions often claim that their objective in these kinds of expansion projects is to make the financial sectors of developing countries more efficient by establishing a greater capacity, both financially and in terms of outreach (Von Pischke, 2008). For-profit institutions often claim that their tactics are providing the basis for building good relationships and opportunities for growth within communities by providing these extra resources to borrowers (Ibid). However, this kind of narrative is a façade-based approach to international development, as it masks the initiative of implementing dependent relationships between foreign, for-profit companies, and vulnerable communities. Introducing commercial and for-profit microfinance institutions into communities puts those who are impoverished at risk, as the commercial and for-profit framework pays little to no consideration for the people of the community, their culture, and their already established way of transaction. Instead, it acts as yet another medium for neocolonialism to make its way into vulnerable communities.

Another significant difference between for-profit and non-profit microfinance institutions is the fact that, with a growing number of commercial institutions entering the field, commercial

organizations are more likely to survive over non-profit organizations as they are arguably more financially stable than non-profits. A large part of this is due to the strength of the financial backing that these organizations have, such as investors, partnerships, and funding from international organizations like the IMF or the World Bank. Private investors are also actively participating in microfinance, along with grants and other means of financing the expansion. In addition to this, based on a correlation coefficient matrix created by Ayayi and Sene (2010), it was identified that the financial sustainability of an institution is positively related to the financial revenue ratio. Not to say non-profit institutions do not have this kind of financial support, however especially in terms of revenue generation, non-profits are not able to rely on this as a self-sustainable revenue to cover operational costs. This is another one of the main reasons why non-profit microfinance institutions choose to commercialize, because they know that if they transform into a more market-based framework, they are likely to get funding and support from market-based actors such as governments, private sector investors, and other grants, and would be able to make enough revenue so that if one of their external funds were to cut out, they would still be able to operate. With this kind of financial support, commercial institutions are more able to provide larger loans, and therefore attract borrowers who are already established microentrepreneurs and can afford to take out a large loan, instead of the original microfinance objective of providing small loans to the poorest of the poor. The financial capacity of commercial organizations in comparison to non-profit organizations reveals how much easier it is for these organizations to expand, attract investors, and continue to grow, as they act in accordance with a capitalist system.

3.2.2 Non-Profit

Non-profit microfinance, as mentioned multiple times throughout this paper, was the original framework upon which the field of microfinance was built. This kind of microfinance institution is still plentiful throughout the world, and in particular in developing countries, however the impacts of mission drift have been threatening their existence, pushing them out of the field, and stealing their borrowers. The main and most obvious variable of non-profit microfinance that differs from commercial microfinance is the fact that non-profit organizations are inherently incapable of the kind of endless growth that for profit and commercial institutions

are, and are, to an extent, financially restricted. The way that this differs from commercial microfinance institutions is the fact that with a larger financial capacity, commercial institutions are more able to finance the larger operational costs that come with expanding the institution such as larger loans, increased number of loans, a greater capacity for customers, and increased outreach. This, as mentioned before, becomes a large reason why non-profit microfinance institutions commercialized and took part in mission drift, as they wanted to increase their financial capacity in hopes of running a larger, more efficient organization for their borrowers. Non-profit organizations, however, are obviously limited in size, and are limited in funding. Because they are unable to fund as many larger loans, they typically stick to small, group loans, and have the ability to manage their smaller borrower roster more effectively, in comparison to the exponentially larger borrower base that can be found in for-profit microfinance institutions.

When assessing the differences between for-profit and non-profit institution, it is easy for it to seem like non-profits are always at a disadvantage because of their size or financial capabilities; however, due to their smaller size, non-profit microfinance institutions usually benefit from having closer community ties to their borrowers, and are able to have a more comprehensive monitoring system (Karlan, 2014). This kind of personal closeness with the borrowers allows for some leeway in terms of repayments of loans, as the organization is often able to let borrowers miss a payment, on the basis that they are likely able to make it up later (Ibid). This kind of trust between borrowers and lenders is something that non-profits are much more capable of, and much more interested in, than for-profit institutions. For-profits would likely never give this kind of accommodation, as their investors, shareholders, and employees are relying on loan repayment in order to receive the revenue that they signed up for, forcing the borrower to repay the loan no matter what it takes, which can put the borrower at risk (Ibid).

Another benefit to non-profit institutions is that they are usually more likely to reach the poorest of the poor over for-profit institutions, despite for-profits claiming that they have a larger outreach capacity than non-profits. This is because it is often times too costly for for-profits to justify using commercial investments to try and reach the most impoverished, because the most impoverished are likely not profitable. Non-profit microfinance institutions are much more willing to reach these people than for-profit institutions as their objective is not to make a profit, but it is to help the poorest (Yunus, 2007). Non-profits are also usually more capable of reaching

the poorest of the poor as they often originate from within the community in which they operate, and therefore do not have to pay any of the costs associated with formal registration and organization in the new country (Ault and Spicer, 2014). Many for-profit institutions are coming from outside of the region and would likely pay these kinds of fees if it was foreseeably profitable, but if the space they are going into contains borrowers that would not be overly profitable, they are deterred by these kinds of registration fees. For-profit institutions are not going to operate where they have to incur additional costs, but non-profits, on the other hand, are much more willing to reach the most vulnerable of the poor as long as they can fund it, as their main objective is to deliver a better quality of life, not make profit.

Another element that sets non-profit microfinance institutions aside from commercial institutions is the collaborative nature of non-profits, in that at the heart of the majority of non-profits is the desire to make significant change in the lives of those who are in need, instead of primarily being interested in profiting from them. For non-profits, the vulnerable individual is viewed as an important actor who could use support or aid from the organization. For-profits, on the other hand, see the vulnerable individual as a resource or customer through which they need to compete for against other for-profits. Because at the core of the non-profit microfinance sector lies the motive of providing small loans to the most vulnerable, non-profits are likely to work together to reach this goal by establishing networks such as the International Network of Alternative Financial Institutions (INAF), created in 1994, which is a global network of development organisations involved in supporting microfinance programmes of member organisations in Asia, Latin America and Africa and now recently in Eastern Europe. It was founded because all of the institutions that were original members were facing the same problems in the face of mission drift, mostly on what was the best way to move forward and operate within the emerging microfinance climate (International Network of Alternative Institutions, 2012). Their main areas of focus are: Capacity Building, Member Services, Product Development, Research Studies, and Policy Advocacy and Lobbying (Ibid). Organizations like the INAFI bring together non-profits with similar objectives in eradicating poverty through microfinance, and act as a medium by which they can share information, best practices, and support. Individual microfinance lenders also began to organize into large global networks to share learning and knowledge, innovate new technologies, and provide assistance to start-ups.

This being said, the pursuit of most non-profit microfinance institutions is to provide loans to the most vulnerable, and it is often more of a team effort than in the for-profit sector.

3.3 Ethics of Mission Drift

Since mission drift started to occur, the ethics of for-profit microfinance have been rigorously debated in both the academic and practitioner worlds. Muhammad Yunus (2011), a pioneer in the field of microfinance expressed his concern for this shift, claiming that it was a worrying shift from the objective of lending to the poor. Some scholars, such as Hulme (2000) have coined the 1990s the “Decade of Microfinance Complacency” to describe how mission drift has created barriers between the original goal of microfinance, which was to lift the most vulnerable poor out of poverty. In referring to the contributions that for-profit and commercial microfinance institutions have had, Hulme (2000) mentions that:

“this contribution is now being undermined by unproven claims about microfinance always helping poor people and the exaggeration of the role of microfinance within poverty reduction policies. Worse still, the microfinance industry has ossified! It promotes group-based microenterprise loan products and is obstructing the development of the full range of services and products that poor people want and need—flexible savings, contractual savings, loans for education and health, microinsurance and lines of credit.” (Hulme, 2000, p. 28)

In this context, one of the fundamental reasons why mission drift is viewed as unethical is simply due to the fact that one should not be seeking out profits through the process of lending to the poor. The other significant reasons why mission drift should be considered unethical is because of the effects that for-profit microfinance can have on the most vulnerable poor. As mentioned in the previous section, many microfinance intuitions that started out as non-profit organizations were co-opted by mission drift, using the opportunities presented to them to expand their capacity through neoliberal tactics. More often than not, these organizations had themselves convinced (or were convinced by investors and commercial banks) that capacity expansion through neoliberal practices was the only way to become a more effective microfinance

organization. However, once an organization starts making a profit off of the poor, there is no longer space for this organization to be considered ethical, due to the fact that making money off of the poor, even if it is to finance the organization that is built to serve them, is an unethical practice. The following section will discuss the ways in which for-profit microfinance exploits the poor using the definition provided by Arnold (2013). This analysis will divide exploitation within microfinance into the three sections of cognitive exploitation, social exploitation, and economic exploitation, and will make the argument that as long as an organization is putting these tactics into practice, they should be considered unethical.

When microfinance institutions experience a mission drift, their focus becomes less on ensuring that the poor in their respective communities have access to financial services and are taken care of, and more on the ability for the institution to generate profit that is either balanced with the benefits that the poor receive, or is directly exploiting the borrowers for the sole purpose of generating revenue for the owners and operators of the bank. That being said, it should be no surprise that most of the negative media coverage of microfinance in the past ten years has been with regards to microfinance institutions using coercive lending mechanisms on their borrowers as a means to gain profit for the institution (Counts, 2008). Scholars will contest the definition of exploitation, but for the purpose of this analysis, the definition by Arnold (2013) will be used, which refers to exploitation as a situation where “commercial agents take advantage of poor people’s cognitive, social, or economic vulnerabilities in ways that undermine their human capabilities and basic rights” (Arnold, 2013). Following this definition, which is similar to most widely used definitions, the way in which commercial organizations interact with their borrowers resembles a kind of exploitative behaviour in each of the categories of cognitive, social, and economic vulnerability. For example, if a borrower has established a relationship with a microfinance institution while it was originally a non-profit institution, when this organization experiences a neoliberal mission drift, it is unlikely that this borrower has the financial experience, knowledge, or awareness of commercial banks and for-profit engagements, as neoliberalism is an extremely Western and relatively new framework. In this case, the lack of transparency of for-profit schemes undermines the cognitive awareness of borrowers, and therefore exploits their condition of being unaware of the operational shift. Additionally, due to the fact that commercial microfinance institutions do not prioritize taking care of the poor, but

instead prioritize making a profit, it is typically not their concern to provide the borrowers with full details, or the means necessary to become financially literate enough to understand the market principles that the bank is abiding by. For example, if a micro-entrepreneur were to walk into a microfinance institution looking for a loan, they are usually not interested in interest rates, as they are an abstraction (Von Pischke, 2008). Instead, they simply want to know if they are able to repay the loan and whether or not it will help their business (Ibid). Many of the borrowers of microfinance loans are in the vulnerable positions that they are in because they have not been able to access the opportunity to become financially literate enough to maintain wealth. Therefore, if most of the target audience of microfinance is typically those who are at a knowledge-based disadvantage, especially within commercial institutions, there is an opportunity to take advantage of the financial illiteracy of the borrowers, and it is often how borrowers end up getting coerced and exploited.

In terms of social vulnerability, it is at the fault of both for-profit, and not-for-profit institutions for continuing to use group lending schemes, when sufficient research has been published on the fact that group lending within the context of microfinance puts borrowers at risk of peer pressure, which can be used to coerce other members into repaying their loans at any cost. Economists are well aware that one of the main explanations for high repayment rates within microfinance is the concept of group loans, which also results in large amounts of microfinance success (Hulme & Mosley, 1996). However, although it may seem like a successful tool, it is important to look inside this group lending mechanism and bring to light the potential, and also very real problems within group lending that commercial microfinance institutions tend to turn a blind eye to. Considering that all members of the given borrowing group need to repay their loan before the next one can be distributed, it is easy for other members to become aggravated with each other as a result of slow repayment, and result in physical or emotional abuse, or being banned from the borrower group, putting them at more of a disadvantage. Larger, for-profit microfinance institutions have a less likely chance at keeping track of these tendencies, as they typically have a much larger borrower base. Non-profits naturally have a better ability to oversee the repayment of loans, in that they have less borrowers than for-profit microfinance institutions at any given time. Repayment of group loans is a combination of social and

economic vulnerability, and microfinance institutions are guilty of perpetuating already existing social threats of both through their practice of group lending.

Commercial institutions in particular have even been proven to form borrower groups without assessing local social practices and other pre-existing social ties or measures, disrupting any kind of functioning system that may have already been in place (Morvant-Roux et al., 2014). They also tend to provide more alternative financial tools to the poor in addition to the group loans, such as larger loans, individual loans, multiple loans at a time, investment opportunities, and savings tools, which seem to be valuable options to have, but this is just another way for commercial banks to get their borrowers more involved in their loaning schemes. In providing these extra options, commercial banks are aware of the coercive and sometimes dangerous tendencies of group lending, so instead of trying to fix the root problems with their group lending options, they offer up even more options for their borrowers, knowing they are likely to bite. Offering these kinds of tempting services to those whose other option is to continue with socially risky group lending is exploiting socially vulnerable borrowers and is therefore unethical. These kinds of practices have come into critical question in terms of the ethics of commercial lenders, and will consider this behaviour exploitative and coercive in the sense that since mission drift occurred, the transactions between the lender and the borrowers are becoming less than voluntary, as borrowers become stuck within a given commercial institution (Hudon & Sandberg, 2013). Additionally, microfinance institutions in general use indirect coercion thorough group lending by putting the responsibility of ensuring repayment of the loans on the backs of the borrowers themselves. This puts borrowers in an even more vulnerable position, as institutions exploit their social vulnerability by insisting that in order to get the next loan, the borrowers must repay their portion of the loan back to the group. If they do not, they will be at the mercy of their social group. In this way, microfinance institutions are not directly coercing their borrowers into repaying the loan but are using social pressures to indirectly force them to repay the loan, which is just as unethical as doing it directly (Ibid).

And to touch on the last element of Arnold (2013)'s definition of exploitation, commercial and for-profit microfinance institutions absolutely take advantage of those who are economically vulnerable in order to make a profit. Reaching the most vulnerable people of society was the original main priority of microfinance, and although non-profit organizations

have kept this as their main objective, commercial and for-profit institutions hold this below their number one priority, as their priority is to make profit off of their borrowers. Another facet of this problem is the fact that the borrowers are typically the poorest of the poor, and most likely do not possess a stream of income that might allow them a full repayment of the loan. Due to their financial instability, many borrowers have to resort to selling their belongings such as their household assets, or even borrowing objects to sell from their friends and family (Bateman, Milford, 2013). And, although microfinance loans were meant to be invested in revenue generating projects or used for entrepreneurial purposes, when an individual is living in such extreme poverty with limited access to food, water, shelter, healthcare, or education, for themselves and their families, the loan is too easily spent out of desperation on these essential items. While this is an extremely valuable and necessary investment, it doesn't generate the revenue required to pay back the microfinance loan. In this case, borrowers might have to resort to taking out multiple loans, which is provided as one of the many other services from commercial institutions that only increases their amount of debt, instead of reducing it (Ibid). With these examples presented, it is easy to see how the coercion from commercial microfinance institutions exploits economically vulnerable borrowers, and in many cases puts them even deeper in a cycle of debt and poverty. Using the vulnerability of the poor to keep making money off of your loans, or to use their vulnerability to keep them borrowing in a debt cycle, is a common practice throughout commercial and for-profit institutions and is fundamentally unethical.

To conclude this analysis, it is important to note that although there is no overarching argument regarding the unethical behaviour of microfinance as a whole, based on the research and literature review done for this study, it is easy to draw correlations between coercive and exploitative behaviour, and commercial microfinance. However, this is not to say that we should be throwing out microfinance as a poverty reduction mechanism, but it is necessary to be critical of the practices as to not further damage the most vulnerable populations by exploiting them. In doing so, there needs to be a stronger and more defined conceptualization of non-profit and for-profit microfinance, and the culture around mission drift needs to change substantially in terms of finding the tools and services that non-profits need in order to continue to thrive without commercializing into for-profit institutions. There also needs to be a shift back towards the original focus of microfinance, which was to reach the most vulnerable poor. In order to do so,

the task of engaging with microfinance transactions with those who are impoverished should be left for community based, non-profit microfinance intuitions, who are willing to engage with additional educational programs that will increase the financial literacy of the borrowers. Additional programs that address the structural barriers of women should also be implemented through these institutions, so that when women are given a loan, they are able to use it without restrictions.

CONCLUSION

In concluding this study on microfinance, it is important to keep in mind the fact that although microfinance has undergone a vast amount of criticism over the past decade or so, it is not to say that the entire project of microfinance is unethical, nor should it be put to a complete stop. There are still many benefits to microfinance within the non-profit section that operate out of the original objective of microfinance, which was to reach the poorest of the poor, and to lift them out of poverty. This kind of grassroots, community-based approach to microfinance has had positive impacts on the poor and will continue to act upon the mission of poverty eradication. What still needs to be criticized, however, is the tendency for neoliberal institutions to undermine the original poverty alleviation framework of microfinance in order to take advantage of the poor in pursuit of financial gain. This process, which is enabled by mission drift, has brought coercive and unethical behaviour to the field of microfinance and has caused unjustifiable exploitation of the poor throughout its practice. Whether or not this result was preventable is questionable, however it is not surprising that the Western tendencies of microfinance would open the door for capitalism to use the poor as its new profit generating host. Regardless of receiving copious amount of praise in its early years, along with a Nobel prize, scholars must continue to seriously question and critique microfinance, as it has taken a dark turn within the field of development.

One of the main limitations to this study was the lack of empirical evidence published on the topic of microfinance. There are two main reasons for this. The first reason is because microfinance is still a relatively new concept within the context of development studies. It has really only been within the past 30-40 years that microfinance was a known poverty reduction mechanism, and it was only in the last 10-15 years in which the post-mission drift microfinance became heavily critiqued, and comprehensively understood. With continued research on for-profit microfinance institutions and the damage of which they are capable of, there now exists a responsibility of researchers and development academics to make even more of an effort to expose the negative effects of microfinance, and produce empirical studies on whether or not the poor are actually being reached, whether microfinance is as empowering to women as it claims to be, and whether or not microfinance should be considered ethical. However, even with empirical data, it is difficult to establish overarching truths about microfinance, as throughout the

literature it has become obvious that much of the success of microfinance has to do with circumstance. This leads into the second reason why empirical data is scarce, because of the fact that whether or not someone is able to benefit greatly from microfinance relies on external factors such as level of education, health, family, location, gender, and much more. Microfinance acts as if it is a blanket solution to poverty, when really it does little to fix the root problems of poverty, and therefore will only benefit those who are in a good position to make use of the loans. More resources need to be provided to development researchers in order to establish a substantial base of empirical data with regards to the effectiveness of microfinance in reaching the poor and empowering women.

A lesson can be learned from the path that microfinance took over the years in order to prevent something like this from happening in the future. The major downfall of microfinance was that it was too trusted, too soon. Microfinance came into the field of development forcefully, and instead of gradually phasing in microfinance, or testing it in select areas, soon after its conception, it was in full practice. Especially when it comes to attempting to alleviate poverty, or in the case of microfinance, completely eradicate it, it is necessary to be extremely careful as to not further impoverish those who you are trying to help. If there was more careful consideration of the potential implications of microfinance before it was implemented on a large scale, there might have been a potential for it to do less damage than it has done thus far. It is now necessary to re-evaluate modern microfinance practices as a poverty alleviation tool in order to continue to innovate new ways that grassroots, non-profit microfinance institutions can reach the poorest of the poor.

The other lesson that can be learned from the progression of microfinance over the years comes from the fact that even though the for-profit institutions have a different objective than the non-profit institutions, when the for-profit institutions entered the field, all they did was build upon the frameworks that non-profits had already established. Considering that the non-profits are still existing, and still carrying out the original mission of microfinance by succeeding in reaching the poor without commercialization, actors within the field of development need to note the fact that those who are operating on the ground, who are already part of a community, or who have close ties to those who they are working with, are the ones who know what will work best for that given region. Consultation with local community members is critical in the creation of

development policy, as it is an extremely delicate situation to deal with those who are impoverished in a region that is not your own. The field of development has seen a significant amount of energy coming from the West to help the South. However, it is not always the case that Western frameworks work everywhere, which is often seen through the implementation of microfinance in the South. If microfinance institutions, for-profit or non-profit, are going to continue their poverty reduction agendas, it is critical that both sectors start to shift their focus towards the root causes of poverty, such as inadequate access to healthcare, lack of education, gender-based discrimination and violence, lack of food, lack of water, or lack of shelter. Until these indications of severe inequality are taken care of, microfinance will not see any success in eradicating poverty simply by the administration of loans. It is for no rational reason that inequality exists, rather, it is due to the greed of the powerful exploiting the needs of the vulnerable. Microfinance has proven to be an example of just how coercive and greedy the powerful can be, however, this must not discourage further attempts at innovating mechanisms that aim to lift the most impoverished out of poverty. Moving forward, development policy must shift away from providing overarching poverty reduction mechanisms, and instead it must start targeting the root causes of poverty from a ground up approach, because without a solid foundation, there is no way to safely build a better, more sustainable life for the most impoverished.

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