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Microfinance: Origins, Trends, and Developments

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Abstract: My research in this article analyzes various facets of the microfinance movement globally as a business and economics strategy. It reports updates and trends in the giving of tiny loans to extremely poor people, especially women in developing nations. As the rise of loans for the global poor has increased in recent years, numerous innovations have occurred that suggest the evolution of the process and ever new changes. Theories, examples, sources, and several critiques are explicated in assessing the rise of loans for the poor globally.

Key words: Microfinance, Microcredit, Yunus, Poverty, Microloans, International Development.

1. Introduction

At the outset, I acknowledge my work of over three decades in designing Microfinance Institutions (MFIs) in dozens of countries. As a business school professor, action researcher, and an advocate for strategies that empower the most impoverished people in developing nations, I have a clear set of values from which I work. Being open and honest about these values are two traits I have employed since earning a PhD at the University of Michigan in Ann Arbor, and throughout my fieldwork across Asia, Latin America, and Africa.

While I've long been an advocate of microcredit for the very poor, along with my longtime partner in such work, Professor Muhammad Yunus, the 2006 Nobel Peace Prize Laureate and founder of the Grameen Bank of Bangladesh, I'm aware of some researchers' and government officials' concerns and complaints. So, this paper attempts to summarize, describe, and evaluate the debates through these recent years.

My colleagues and I have designed some 41 new NGOs through the years. They started with our work in the Philippines back in 1989-90 and continue until now. I've continually sought to design new start-ups, mobilize college students as volunteers to travel and roll out grassroot innovations with village women and tribal elders in over 60 nations. Working independently from governments, corporations, churches, and other of what I call "the "Big Boys," we stated small, evolved through collective dreams and practical actions, and in the process, we've jointly raised over $1.3 billion in funding for the poor. Yes, that's with a "b," not an "m" for only a million dollars. People said we couldn't do it, but it's all documented. Whether involving academics, small entrepreneurs, foundations, or schoolteachers, we gradually increased our social and economic impacts.

At the outset, let's review basic terminology prior to delving into key issues. Below are the key terms and their definitions used in this research:

- *Microcredit* (tiny loans or microloans to the very poor)
- *Micro-bank* (a village or communal bank group)
- *Microenterprise* (a very small income-generating activity or family business)
- *Microentrepreneur* (recipient of a microloan with which one can start or expand a small business)
- *Microfinance or microfinance institution* (a more-inclusive term for the above five "*micro-*" terms, sometimes also including programs such as client savings, health insurance for the poor, education loans, and others)

The paper that follows provides detail about relevant microcredit trends, not only of our own humble efforts, but innovations and dilemmas globally. The movement still doesn't have "all the answers but is gradually producing many insights and solutions. We turn to some of the key MFI developments below.

1.1 Types of Loan Products

Microcredit services are being offered above and beyond simply obtaining a loan to start a microenterprise. Some NGOs are giving other types of loans. For example, the Aga Khan Development Network operating in Egypt, Syria, and elsewhere, started providing health microinsurance for poor families at extremely low costs. Also, it now gives school loans so impoverished children can get an education. With support from the World Bank, Aga Khan grew from an early available $35 million in microcredit for small businesses of 25,000 borrowers a year into a larger MFI that offers numerous types of financial loans to the poor. Other NGOs are offering housing loans to improve one's shelter, agriculture crop loans to insure peasant field work, and so forth.

1.2 New Banking Tools

New tools for financial transactions are being provided through microcredit institutions in some countries. For example, in the Dominican Republic ADOPEM, a partner of Women's World Banking, offers ATM services for its poor female clients. And in dozens of other countries, microentrepreneurs are able to obtain a VISA or MasterCard to access needed capital for growing their enterprise, purchasing raw materials, and so on.

1.3 New Institutions

Large new players are continuing to enter the field of microfinance. For instance, the International Finance Corporation (IFC, 2022), which ignored microcredit during its early years, but finally started funding up to 56 MFIs in dozens of nations. In its early years it had a portfolio of more than $25 million and a client base consisted of over 1.3 million households. IFC has continually expanded to over $6.2 billion in loan capital for poor families through some 330 projects in 92 nations.

1.4 Measuring Microcredit

A dozen finance agencies have worked to create metrics and rate MFIs to determine their performance and assess their systems of effectiveness. They have come to calculate risk and be able to predict future success. Such efforts play a major role in nations whose central banks are beginning to implement microcredit programs. The Impact Assessment Center of the Microfinance Gateway and CGAPS'S Poverty Assessment Tool both help to identify the poorest clients, provide loans, and then evaluate how much loans improve family quality of life. My home university, BYU and our colleagues at FINCA International have been collaborating on field study impacts for years to measure the results of microcredit. Opportunity International uses a performance and benchmarking system to compare its 40 partners around the world on such criteria as outreach, profitability, and sustainability.

1.5 Large Scale Plans

In the early 2000's, major donor countries committed $34 billion to the International Development Association (IDA) allocated over the last few years. The funds serve as low interest loans and outright grants to 81 of the world's poorest nations. The financing of small enterprise startups has become ever more significant including projects to aid poor Africans (Trivedi, 2011).

1.6 Overseas Remittances

Immigrant workers in Europe, Japan and the U.S. earn and send back to their Third World relatives over $596 billion annually (IMF, 2017). Most of that money goes to very poor families struggling to survive. The capital from outside such nations benefits some of them greatly, but in some cases the funds are squandered. Hence, Citi Group and other large banks began attempting to capture some of the remittance total, channel it to MFIs which then loan it to the poor, oversee its use, and ensure that the funds are used to climb out of poverty, not just to purchase consumer retail products. According to the Inter-American Development Bank (IDB), its study determined that the capital flows from remittances are larger than the total amount of foreign aid given some Latin American countries. Tapping that source of money to fight poverty promises to generate further innovations in the future.

1.7 Government Initiatives

National governments have experimented with evolving approaches to microcredit. For instance, the government of Bangladesh has established Palli Karma Sahayak Foundation (PKSF), a national wholesale fund that, in turn, channels monies to NGOs for microcredit purposes. So far it has extended well over $300 million to approximately hundreds of Bangladeshi NGOs, greatly expanding the availability of microcredit to the nation's poorest regions where, before PKSF, there were no such opportunities As of 2020, it was assisting some 12 million households with various services, both financial and non-financial (PKSF, 2021). Because of this success, other countries such as Pakistan, Nepal, and the Philippines, have likewise created national wholesale finds, free of government influence, regulation and corruption.

1.8 From NGOs to Banks

In a growing number of cases, what started as a nonprofit NGO providing humanitarian loans to the poor has evolved into a formal, for-profit bank. Depending on the legal environment and social-political structures of a national government, the trend for doing this has grown. The first example of this was ACCION's project in Bolivia to transform itself beginning in 1984. A partner NGO was organized, PRODEM, and with a native board of business experts and a skilled staff, training and loans began to be provided. But the demand for microcredit was so huge in a country so poor, PRODEM eventually determined it could simply not do the job as an NGO. A committee was formed to launch a new formal financial "institution," Banco Solidário (Banco, 2022) or "Solidarity Bank." It opened in the 1990s and quickly outgrew its need for donors and unpredictable government support. Instead, profits generated operating capital to fuel its growth. Today Banco Sol is the largest bank in Bolivia providing a vast array of financial services to the country's poor, while enjoying a high rate of return on its loan portfolio.

Banco Sol became the model for a similar formal microcredit bank in Peru called MiBanco. Later came CARD (Center for Agricultural and Rural Development) in the Philippines and Nirdhan Utthan in Nepal which have likewise been established. Pakistan followed by passing legislation to facilitate its so-called First Microfinance Bank in that country. More such innovations continue to occur as MFIs and other NGOs work to establish formal financial markets around the globe.

1.9 Green Microcredit

In recent times, environmentalists began to partner with microcredit NGOs to provide financial services for the poor that are ecologically appropriate and sustainable. They teamed up with Rotary International to send solar ovens to poor families victimized by the Asian Tsunami in Sri Lanka. Another three-way partnership is between FONKOZE, the major microcredit NGO in Haiti, a U.S. green NGO, and a solar energy vendor piloting equipment that generated electricity for Haitian microentrepreneurs. Numerous NGOs and universities are collaborating on research about pro-green policies for microcredit as well as holding conferences and funding student internships in green microcredit. HELP International trains its BYU student volunteers to implement Square Foot Garden (SFG) methods, using compost, to double or triple vegetable produce for poor families in Central America. A number of other NGOs are giving loans for environmentally sustainable projects like biogas systems, micro-drip irrigation, Lorena Stoves to reduce in-house smoke particles, low tech water pumps and so on.

1.10 Accelerating Microcredit

How to expand microcredit from its current important, but limited impacts, into an ever-growing and tool for empowering the poor has become a matter of growing interest. So far, even though it provides loans to 100 million individuals, this represents a mere 16 percent of the projected global demand for microcredit. Unitus has led the charge in showing that most microcredit NGOs serve an average of only 2,500 poor clients, so accelerated services were becoming essential. A handful of major NGOs such as FINCA, Grameen, and Accion, also now serve more than a million borrowers each. Thus, some 400 million poor households can have access to capital.

In 2000, Unitus launched an innovative acceleration model to exponentially expand microcredit around the world. It evaluated high potential NGOs which had only few thousand clients, and upon deciding to partner with them, provided capital and consulting services to enable then to dramatically expand. Unitus typically started investing $2-4 million for several new partners annually. Gradually, it fueled the growth of MFIs in Kenya, Mexico, and India to a total of over 400,000 clients, then a million. From there it mushroomed to securing MFI capital of over $1.2 billion helping to create jobs among the poorest of the poor which has risen to some 28 million people (Woodworth, 2021).

1.11 Hi Tech Innovations

Providers of microcredit services are rapidly embracing the use of new technologies to expand their impact: computers, smart cards, personal digital assistants (PDAs), cell phones and other tools, etc. For instance, the Andhra Pradesh partner of Unitus, Swayam Krishi Sangam (SKS) began using smart cards for each of its clients spread throughout the hard-to-travel rural areas of India. Before this, old paper, pencil and manual ledgers were used. But SKS staff eventually began using palm pilot type hand-held computers to record borrowers' efforts. The clients' loan and savings transactions were recorded automatically. Instead of paper pass books and collection sheets everything was computerized. This reduced meeting times, gave management up-to-date reports, cut errors, and so on. It also cut SKS' annual reporting costs and increased back staff efficiencies so they could visit more village banks each day.

In the early 2000's, PDAs were being used by numerous NGOs to manage MFI client data. While out in the field, staff members could review clients ready for upcoming loans, track financial transactions, use scoring techniques to predict customer behavior, identify borrowers whose repayments may be late, plan collection visits, and so forth. They could fill out loan application forms. All this enabled NGO to standardize credit practices and policies, improve data accuracy and build loan officer efficiency as a result of improved management information systems (MIS). Then, as the cell phone technology took off, its technology made the need for earlier tools obsolete, both for MFIs and rural villagers throughout the world.

For instance, in Uganda and Bangladesh, cell phones began to be used, not only to enhance client communication, but as microenterprises that can sell minutes to the public. Such services became a hot commodity in rural villages where there was no regular phone system. Some "phone ladies" in Uganda started having incomes of $1,000 per year, a sharp contrast to annual compensation of $300 when they were only raising goats. In Bangladesh, Grameen Phone was established in 1997 with a mere 28 village cell phones. Today it is the largest mobile service provider, not only in Bangladesh, but all of South Asia. It currently serves 83 million customers (Grameen, 2021). There are hundreds of thousands of cell phones in Bangladesh villages with over a million subscribers throughout the nation. Smart cards, PDAs, cell phones and other technologies enabled microcredit practitioners to leapfrog from 18th century feudalism to 21st Century hi tech systems.

1.12 Coping with Disasters

What happens to NGOs when calamities like the 12/26/04 Asian tsunami, the 9/11 World Trade Center attacks, or Hurricane Mitch in Central America occur? A number of NGOs have developed innovative policies and programs to better cope with such events. USAID, for instance, put together a 5-phase series of interventions to help MFIs cope with overwhelming challenges. Katalysis, a Stockton, California-based NGO prepared a manual, "When Disaster Strikes," drawing on its experience after the 2001 earthquakes that hit El Salvador. It contained action plans for its U.S. headquarters, regional field office and local MFI partners. Similar recent strategies have been developed after Japan's 2011 magnitude 9 earthquake and tsunami caused the level-7 nuclear meltdown of the Fukushima Nuclear Power Plant (Japanese National Police Agency of Japan, 2019). It killed 18,000, injured or made mission thousands more, and became the costliest natural disaster in recorded world history at $235 billion by the World Bank.

2. Microloans for Street Beggars

In perhaps what is the most radical innovation of all, the Grameen Bank responded to the criticisms that microcredit doesn't actually target the very poorest. Dr. Yunus launched its "Struggling Members" program, giving loans to street beggars beginning in 2003. Floods, a provider's death, or disability are often factors that may doom a Bangladeshi person to a fate of seeking charity from others. To buttress the claim that credit ought to be human right, and to serve those on the lowest rungs of poverty's ladder, Grameen started giving such people a loan. Transcending Grameen's rather rigorous rules for most borrowers, this innovation allows the beggar to not join a bank group, or even attend meetings if they don't want to, or simply can't. The average loan is $9.00 and no interest fees are charged. Repayment occurs when and as the borrower can do so. There is no rule, no pressure, and no collection agency. Most continue to be on the street, but now they have a product to sell, such as bread or candy, as well as earning a bit of extra capital. Grameen also provides blankets, mosquito nets and other products to help street beggars be more comfortable. In the early years of this innovation it loaned out approximately $500,000 U.S., of which nearly half was soon repaid. At the time, some 47,000 Bangladeshi "struggling members" received support, and many quit begging and were able to move up to operating their own microenterprise, as reported in Professor Yunus' speech at Stanford University (Gorlick, 2008).

2.1 Additional Innovations

Finally, it should be pointed out that the preceding innovations are but a sample of the numerous creative solutions being experiment with by MFIs around the world as of 2022. Many of them are in the early stages of innovation that holds the promise of future breakthroughs on a large scale. For example, a few years ago in Uganda, FINCA discovered that 80 percent of its 30,000 clients were raising at least one AIDS orphan, and that 75 percent of client incomes went to healthcare. So, it started a health insurance program to treat medical problems, as well as life insurance to mitigate the high burial costs for borrowers and their family members who may die. In Kenya, the Women Economic Empowerment Consortium, (WEEC) didn't give financial loans to its borrowers. Instead, it offered Maasai women, most of who were nomadic herders, cattle as the means for growing family income. WEEC bought many cattle at once to enjoy the advantages of bulk purchasing, and then the amount of the loaned cow was repaid from the individual's sale of milk. WEEC enjoyed a record of zero loan delinquency.

Children have also become microentrepreneurs too. In Bangladesh, street children 11-18 years of age go through training program on health, AIDS, hygiene and financial well-being. When graduating, the MFI PMUK gives those who want to start a small microenterprise a tiny loan of $10 or so to shine shoes, sell flowers, etc.

In the Philippines, Freedom from Hunger and the World Council of Credit Unions (WOCCU) began to partner with local credit unions in order to offer microloans to poor clients. WOCCU has seen its client base mushroom from 2,000 to hundreds of thousands of microentrepreneurs over the past several years. Its work aiding the poor in Colombia heralds a major success (WOCCU, 2019).

In rural Slovakia where people are widely spread out to have an effective MFI operation be established in a central location, one NGO began taking its services to potential clients as a "Traveling Road Show." The Integra Foundation (TIF) moved around the country, recruiting single mothers and abused women, providing training, accepting loan applications, and disbursing loans.

Having reported on and reviewed the range of MFI innovations, we next turn to several matters of divisive controversies.

3. Microcredit Issues and Debates

While the microcredit idea of giving small loans to the poor has mushroomed into a large global movement, it is not without its critics. Like every good innovation, there are doubters, detractors, as well as ardent supporters. The paragraphs below highlight some of the main criticisms and/or points of debate. They are classified into three types of arguments: theoretical differences, practical disagreements over methods, and other basic questions about microcredit. I do not intend here to resolve the issues, but merely to raise them for the reader to consider.

3.1 Theoretical Debates

The conflicts over microcredit as a concept go back to its early years when many bankers and economists rejected the very idea of giving loans to the poor. Such a proposition defied traditional assumptions that the poor were not worthy of loans, couldn't handle the responsibility, lacked collateral and education, etc. But the U.S.-trained economist, Muhammad Yunus and others broke the mold of such theories when he realized his neo-classical economics education for a Ph. D. degree did not adequately explain the complexity of impoverished communities in Bangladesh. He had been taught that the poor are lazy, and that poverty exists in developing countries because people do not work. But he found the realities of poverty clashed with economic theory he had learned and was teaching his Bangladeshi students at Chittagong University, so he launched the Grameen Bank as a different model.

Most economists believe that self-interest drives all financial transactions. Microcredit argues a different paradigm—that altruism and helping others, i.e. lifting the poor out of their suffering, can also explain economic behavior. The charitable motives of NGOs like ProMujer, Yehu Bank, Unitus and others have always been explicit: They sincerely want to reduce human suffering. They are not using microcredit for self-interest purposes such as making money off the poor or gaining popularity in the media. They suggest an alternative to traditional economics that often leave the poor behind. They show another economic model where the impoverished are helped out of poverty.

Another conceptual debate is in the question of whether the best path to international development is large-scale, top-down funding of major projects versus small-scale, bottom-up microloans to minor players. As a theoretical matter, this debate has raged for three decades, mainly between scholars and policymakers. For instance, as the most powerful player on the scene, the World Bank emerged after World War II to provide capital for reconstruction and development in the world economy, providing long-term credit to poor nations—mainly for building infrastructure like highways, bridges, dams, and other huge projects to modernize such countries. The theory was that by investing in large-scale developments, a nation's ability to compete in the global market would increase and the poor would gradually become better off. However, in many cases, like Brazil for instance, the theory didn't work. Mainly, the rich in Brazil benefited, while the poor grew still poorer. Today Brazil is one of the most financially unequal countries on earth.

Over the past decade or so, the theory supporting microfinance services to the poor at society's bottom has begun to be accepted by World Bank and other scholars. In recent years, these institutions have begun to focus more on poverty alleviation, emphasizing the issues of women, literacy, and microcredit. Thus, the World Bank has changed both conceptually and practically as the debate over microcredit has gone on. The World Bank's support for microcredit has changed, along with its theories: It's gone from a mere $2 million dollars for microlending in the late 1980s, to $35 million by 1996, then to over $100 million by 2000. Its portfolio over recent years climbed above a billion dollars. By 2012, its portfolio reached 24 million micro, small, and medium enterprise (MSME) clients. In recent years the bank has built an active financial inclusion portfolio of over $3 billion, with lending and technical assistance projects in over 60 countries (World Bank, 2015). It seems the debate is no longer whether or not microcredit is worthy of financial support. Instead, it's a question of how much.

3.2 Practical Debates

On the pragmatic question of microcredit there are numerous differences in implementation and outcomes. The list of such matters is long, so only a few will be highlighted here.

3.3 Gender: Male or Female?

Should the loans go to only women, mostly women, or males and females equally? The trend over time has mostly been toward giving loans to female microentrepreneurs. The marginalization of women in the marketplace has been an age-old problem based on the notion that women shouldn't have property rights and so on. But the rise of democracy in non-industrialized countries, as well as other forces, is gradually destroying such biases. It is now known that women are a significant economic sector, especially in the informal economy, with huge potential impacts in helping a national economy to grow.

Hence, most NGOs including Grameen and FINCA, that initially and primarily gave microloans to men, now almost exclusively channel their credit to women. They do this "because it is right," as some staffers say. They also do it because women tend to be better risks, they pay their microloans back at a higher rate, and they use their profits to grow the business and/or help their children. Males often are not so responsible. However, there are new NGOs, like BASIX in India, that primarily loan to men. They argue that men can be responsible, too, and that loaning only to women upsets the traditional patriarchal structure in their culture, leading to unintended consequences, such as role loss, marital conflicts, and so forth.

3.4 Loans vs. Training?

In scanning the horizon of microcredit, there is ongoing debate about whether the NGO practitioner should only provide needed capital for microloans, or whether small-business training ought to be included.

Some MFIs such as Grameen simply provide microloans. They claim that the poor are trustworthy, capable, and merely need extra capital to start or grow their business ideas. Small organizations point out that training is costly and takes time, thereby reducing the growth in poor borrowers, many of whom can't afford the time or travel costs to attend seminars, even if such training events are free.

Other NGOs argue the opposite. What good is a loan if a person can't use it effectively? They note the high rate of failure among new firm start-ups in most countries and suggest that training lessens the likelihood that the microenterprise will fail. Visayas Enterprise Foundation illustrates this position. From its inception, the emphasis has been on training and management skills first, and credit later. Such NGOs admit training is costly, but the costs of microenterprise failure and resulting inability to pay back the loan are worse.

3.5 Organizational Model: Charity or Business?

A major practical issue in the microcredit community is whether it ought to be a tool for social well-being in behalf of the poor, or a new business model. Some scholars characterize the debate as the institutionalists (pro business advocates) versus the welfarists (humanitarians).

Essentially, the charity-oriented MFI sees its mission as relieving human suffering, giving services and goods to fill basic needs: food to relieve hunger, education to combat illiteracy, medicine to reduce disease. Thus, microcredit is simply an additional offering—credit to combat unemployment. Such organizations often depend on private donors and/or government subsidies. They reject calls to become financially sustainable and independent from foundations and other sources. Instead, they argue that the poor have a human right to credit. The role of NGOs and policymakers is to reduce joblessness and poverty, and microcredit is seen as one more tool to give the world's have-nots.

In contrast, the institutionalists argue that the welfare approach is too small and too slow. They suggest that the need for financial services by the poor will grow to some $100 billion by 2030. Sheer charity from personal donations and foundations simply won't have the capacity to meet such a demand. Thus, microcredit needs to become part of the mainstream, operating as for-profit financial institutions that only differ from traditional banks because they target a poorer class of clients. While the welfarists dominated the movement for two decades, it seems that the institutionalists are now beginning to take the lead in the 2020s.

3.6 Credit and/or Other Services?

This debate centers around whether a microcredit business loan ought to be the only offering to poor individuals, or if additional services should be provided. Many NGOs claim that they should strictly focus on doing one thing—microcredit—and do it well. Their view is that organizations need to have a single, clear mission, but that many flounder by trying to offer multiple services, none of which is extraordinary.

Conversely, other practitioners hold the opposite view. In their minds, microcredit is a necessary, but not sufficient, resource for the poor. They stress the need for additional programs that if not provided, the poor will likely slip back into their earlier suffering state. Perhaps the most well-known NGO advocating this view is Freedom from Hunger, a California-based nonprofit that pioneered the provision of various services, (2014). Starting in 1946 to fight hunger, it shifted in 1988 to integrate microcredit with nutrition and/or education. The result was "Credit with Education," which combines microloans with such things as HIV-AIDS awareness, polio vaccinations, family nutrition, women's health, literacy, and management skills. Eventually, in 2016 it merged with the U.S.'s Grameen Foundation for greater synergies. At that time is had a $5 million annual budget and was serving 5,7 million impoverished clients in some of the poorest nations of Asia, Latin America, the Caribbean, and Africa. While the integration of microcredit with other programs takes longer and is more costly, advocates feel the holistic approach greatly benefits the whole woman, not just her economic nature.

3.7 Other Practical Debates

Finally, it should be noted that there are numerous additional issues that differ between groups and experts doing microcredit. Lacking the time and space to explain them, we will simply list other issues below for the reader to pursue according to his/her interests:

- Does increasing microenterprise funding cannibalize other programs? Some worry that overemphasis on microcredit may be dangerous because it could lead to cutbacks in other forms of poverty alleviation.
- Time required to rise from poverty? Critics are concerned that microcredit takes too long to lift the poor from poverty. For example, one Grameen study reports that borrowers tend to receive loans an average of eight years before they finally move out of poverty.
- Is microcredit exploiting women? Women bear the brunt of microcredit loans, thus becoming burdened with financial debt. Too often, the woman may not even control the use of such money since the husband or other male family members may take her loan money for their own purposes.
- Marketability of microenterprise products? An ongoing debate is over whether or not products made by the poor are only sellable in weaker local markets, or if they can be distributed beyond the village to international consumers?

Savings or microcredit only? Some NGOs offer loans only, while others first require clients to start personal savings accounts as a way to learn money management and to build their own nest egg first. Then later, when loans are offered, the poor understand something about interest rates, principal, and more.

While I've long been an advocate of microcredit to the very poor, along with my longtime partner in such work, Professor Muhammad Yunus, the Nobel Peace Prize Laureate and founder of the Grameen Bank of Bangladesh, I'm aware of most researchers' and government officials' concerns and complaints. So, let's use the few final pages of this article to address several criticisms through the years.

4. Major Critiques Claiming Microcredit Isn't as Good as it Claims

A number of researchers and policymakers argue heavily against the phenomenon of microcredit. Their criticisms are summed up with the assertion, among others, that microcredit hurts the poor. Some of them quite forcefully claim that microcredit exploits the poor by offering them loans they never had access to before, "tempting" them with constant new offers and greater and greater debt. The adverse effects may constrain those already suffering to a lifetime of deeper and deeper poverty (Sinclair, 2012).

Lack of replicability is another argument against microcredit which claims that it only fits the informal economy of the Third World, not industrialized nations. Such claims have assumed that replicability is just not possible in modern societies. While this was a major part of debate in the 1980s-90s, the evidence today is overwhelmingly to the contrary. There are thousands of NGOs in Europe, Canada, and the United States today, offering many successful models of microcredit, including that of my graduate students and myself on doing microcredit in my home state of Utah (Woodworth, 2022).

A third major voice from academics about MFIs is that of Bateman (2018) and others in an edited volume from UNCTAD (United Nations Conference on Trade and Development). These critics have sought to argue that their book on microfinance strategies in multiple nations of Latin America and elsewhere offers a definitive assessment of what's been wrong with the movement. While suggesting articulate analyses, I don't see them as much different from the problems built-in to many financial schemes, those which society has faced for several centuries. Let's explore two major business media complaints about microcredit.

4.1 The Wall Street Journal Critique

Since its inception in the 1980s, some "experts" have denied that a mere $60 microloan could do any good. Others claimed the process was a rip-off of the poor. There have often been a series of debates about microfinance and various efforts to offer microloans, whether to use group solidarity lending methods, whether an organization should become a for-profit or non-profit organization, etc. Two of the most recent hard-hitting attacks on microcredit have arisen. One was on the front page of the by two reporters of *The Wall Street Journal* two decades ago (Pearl and Phillips, 2001). Back then, the writers claimed the MFI movement, and Grameen Bank in particular, doesn't play by traditional accounting rules and procedures that other financial institutions use. Several other large-scale MFIs, as well as Grameen, exist to empower the poor, not make high profits as mainstream banks seek. But to reporters with no training in pro-poor accounting systems of innovative microcredit programs, the system appeared ineffective and cumbersome.

In essence, they call microcredit a "great idea," damning it with faint praise and then trying to dismantle it. But the WSJ staffers completely missed, or intentionally ignored, the $3.2 billion by that time that impoverished rural Bangladeshi females had repaid to Grameen over the earlier 20 years. Instead, they emphasized the few millions of dollars in loans outstanding when they wrote their article. Part of the repayment problem the WSJ article complained about but never mentioned was due to the devastating Bangladesh floods that engulfed half the country for over two months. Clients' businesses were destroyed, and millions of homes had water over their rooftops. So, Grameen responded with fresh loans to help victims dig out after the floodwaters receded and to get their microenterprises jump-started again.

Of course, since 2001, almost all that money has been repaid, and Grameen consistently has over 97 percent of its more than 9.7 million borrowers paying their loans in full, on time, week after week, month after month, year after year. And that occurs among clients who are mostly illiterate, impoverished, spread throughout distant rural areas without modern infrastructure, telephones, and electricity. They also suffer the ravages of natural disasters, mostly seasonal flooding, as well as civil strife and other instabilities-- all factors quite different from big U.S. banks. As of early 2022, Grameen had loaned out more than $35 billion to the poor of Bangladesh. Thus, in fact, Grameen may enjoy a better record than Citibank or Bank of America, but to outsiders seeking to diminish microcredit, no such comparisons were made in the WSJ article. Thus, they set up a "straw man" of inefficiency and poor payment rates and then knocked it down. The criticisms against Grameen and other large MFIs may continue, but the resistance, and countervailing data from the opposite side, ensure that microcredit is not about to collapse.

4.2 Bloomberg Magazine Critique

Most recently, another major American business source, *Bloomberg*, has tried to besmirch the microfinance movement (Finch, 2022). The writer's attempted to condemn MFIs in Cambodia and elsewhere because there was corruption in some cases, as well as the struggles of peasant farmers in India and beyond who didn't pay back their microloans and ended up committing suicide. Those cases have been well documented and are certainly sad. But the author doesn't seem to realize thousands of people commit suicide over debt from regular bans as well. Experts are aware of the corruption that occurs in major capitalist banks which is likewise ugly and painful as well, whether we're talking about Wells Fargo or the big banks in Berlin and Moscow. In fact, JPMorgan Chase, Deutsche Bank, HBSC, Standard Chartered and Bank of New York Mellon were all accused of moving dirty money for over 20 years, despite evidence that they knew the funds were illicit. Will Bloomberg now argue they should also be closed and top executives jailed? Of course not.

The fact is that Grameen and most microcredit institutions enjoy a better repayment record than Citibank or Bank of America. But to outsiders seeking to diminish microcredit, no such comparisons were made in either the Bloomberg or the WSJ article. Instead, they set up a "straw man" of inefficiency, poor payment rates, borrower deaths and government involvement in corrupt financial schemes, and then tried to knock down the microfinance movement. The criticisms against Grameen and other large MFIs may continue, but the resistance, and countervailing data from the opposite side, ensure that microcredit is not about to collapse anytime soon.

While the criticisms, debates, and issues over microcredit rage, the behind-the-scenes reality is that the movement is growing. Economists and other social scientists may fight over theories and concepts, but microenterprise development is increasingly being included in the curriculum of college courses on economics, as well as research journals and the policies large multi-lateral institutions like USAID, the World Bank and the United Nations.

Differences in practical applications continue to grow as NGOs experiment, invent new models and test them. While some see this as a weakness and wish there were one grand system that would work across cultures and diverse NGOs, others like myself are delighted by the clashing controversies because they yield new light and understanding, better methods, and future innovation. To such individuals, microcredit embodies the very essence of creating a new social invention. Like other technologies such as the telephone and computer, all the variations that will occur over the years to come mean options for microcredit practitioners, as well as consumers.

Finally, while the enemies of microfinance seek to halt, or at least slow its course, their resistance will largely be irrelevant as the movement expands. Why? Because statistics from Action Against Hunger (2022) suggest that currently some 811 million people globally live in "extreme" poverty, eking out an existence on under $2.00 per person per day. Some 300 million-plus are children under age 18, and among them roughly 2 million die each year, most because of malnutrition. We can add other factors that make these data worse due to poverty and preventable diseases. In contrast, wealthy families across the world recently became richer than ever, and America itself has had a huge jump in those who were or now are billionaires.

5. Conclusions

To detractors who worry that microfinance burdens the poor with debt, so many more microentrepreneurs explicitly seek microloans *precisely so they can climb out of poverty*. To those who doubt microcredit's replicability and relevance in industrial nations, about every modern country now has policies, funds, and practices for using microfinance to mitigate its own economic problems. And to hard-hitting critiques like Bloomberg or the *Wall Street Journal* articles, the actual facts are these: Stories claiming that microfinance is" too good to be true," and that institutions like Accion and Grameen don't play by the standardized U.S. rules, there are hundreds of new NGOs springing up around the globe. They continue to outperform many traditional finance institutions.

Their collective client growth has risen to 3.7 million borrowers, 96 percent of whom are women. It has now loaned over $5 billion and had over $4.5 billion repaid since its inception for a recovery rate of 99 percent. Beyond Grameen, the microcredit movement has grown exponentially since the 2001 WSJ article indicting it. There are now over 3,000 MFIs giving loans to some 100 million of the world's poor.

Approximately 55 million are the poorest people in their countries, and 82 percent of them are women. When the impact of microcredit is expanded to include the average household family size in the Third World, microcredit has now indirectly benefited some 400 million men, women, and children.

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