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# An Interactive Research Study on For-Profit Microfinance and its Continued Social Impact

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An Interactive Research Study on For-Profit Microfinance and its  
Continued Social Impact

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Fall 2015

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## **Abstract**

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Though the world is changing rapidly, the problem of poverty and the push for human development have been debated for as long as anyone can remember. Outdated strategies for human development are not sustainable in this new globalized world. The relatively young and growing field of microfinance is hoping to be the answer for sustainable human development and poverty elimination. This study analyzes the impact of microfinance on human development through two major questions. Firstly, to what extent and in what ways can microfinance impact the poor? This research question is multifaceted and will seek to address some of the major criticisms of the microfinance field. Next, has the expansion of the field into for-profit models of microfinance impacted the original goals of microfinance or the ability for these goals to be realized? In other words, is it possible for profit seeking companies to remain accountable and true to the social development objective of the field? The data from this study consists of information from interactive research. The research supports the diversification of the field of microfinance has had a largely positive impact, though it has hurt the public opinion of the field. In regards to impact on human development the research shows first and foremost it is difficult to measure the overall influence on microfinance via controlled studies. Nevertheless, nearly all experts agreed microfinance has a positive and sustainable social impact on the poor.

## **Preface**

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This interactive research paper is a sort of capstone project concluding my semester with the School For International Training (SIT) where I studied global health and development policy in Geneva Switzerland. My semester in Switzerland included a home-stay visit and allowed for plenty of time to interact with other students in the program. The relationships I made with my home-stay family as well as a couple other SIT students were equally educational as they were fun. I was introduced to the topic of microfinance not by a lecturer or field visit, but via a short conversation with one of my classmates, now friend, as we were preparing for bed in a small hotel in Chefchaouen, Morocco. I had never heard of microfinance and was at first not considering any topic of study outside of my usual focus of health policy and emergency response. Yet, I am a firm believer that everything relating to human development is connected. Be it health (my major focus of study previously), policy, environment, sociology, or economics. Every distinct field has something to offer to the study of human development and global health. Understanding how each of these fields interconnects has become increasingly important to me as I feel the professional world is becoming too specialized and the need for interdisciplinary discussion is increasing. While health and policy are areas I study often, I had yet to venture into the financial branch of the puzzle. Thus with Geneva being the center for international development organizations as well as banking, I decided I should take advantage and try something new!

## **Acknowledgments**

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I would like to start by thanking the director and academic coordinator of SIT Switzerland Dr. Alexander Lambert and François Flourens. To my personal academic advisor Dr. Heikki Mattila, thank you for going above and beyond to help me throughout the research process. Thank you to all those who selflessly made room in their very busy schedules to help a young and eager college student including Craig Churchill, Jacques Grivel, Silencer Mapuranga, Alain Vergeylen, Bernd Balkenhol, Monica Welter, Pierrick Balmain, and Lore Vandewalle. I am grateful to all the SIT students, each of you added to my experience in some way with your willingness to share knowledge, debate with passion, or even sip some wine by the lake. This semester would not have been possible without my loving parents and grandparents who have always been my greatest supporters, thank you again for all you do. Lastly I want to especially acknowledge my home-stay parents Jacqueline and Philippe Labhard as well as the rest of the family Francis, Matthias, and Jen. I cannot express how grateful I am for the welcoming and loving environment your home offered. Aubonne felt like home from the very first day and you were a major part of why I was so happy during my short stay in Switzerland. I promise to share my future adventures with you and hope you will keep me updated on wherever life may take you next! Thank you.

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## **Introduction**

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Sustainability and globalization are the new buzzwords circling the globe. Be it academics, world leaders and policy makers, economists and environmentalists, everyone has joined the conversation and is eager to contribute to the global agenda. And while the world is facing a handful of new challenges, many of the problems that have hindered populations since the beginning of time are still present. Poverty, and subsequently the elimination of poverty, has been causing headaches among social scientists as long as anyone can remember. Poverty is not only correlated to several other major issues; it is also the cause. Everything from health equity, political freedom, and education is greatly dependent on community wealth. All of this is old news for most as are the inadequate ways poverty elimination and human development have been approached in the past. Government aid packages and philanthropic donations have been the major players thus far. What many like to call “Band-Aid donations”, these measures are almost always unsuccessful and like the name suggests, temporary. While these approaches are still used and even necessary for certain cases, we have learned a large amount in the last couple of decades and understand this method to be wasteful and sometimes implemented without the purist of intentions.

While complete elimination of poverty is still considered a dream, we have a better chance of making an impact today than ever before. The new commitment to sustainability in combination with the globalized world offers an array of innovative solutions. While the negatives of globalization often receive the most ink, there are also entire new possibilities that come along with the increasing connectedness between world populations as well as world markets. The globe is completely different than it was just fifty years ago. Though the prerogative is still the same, creating a more peaceful and happy world, all the variables have

changed and old problem solving methods must be abandoned. Embracing globalization for what it has to offer, and making a commitment to sustainability is necessary for progress and the continued fight against poverty.

Some feel microfinance is the perfect solution for fighting poverty and increasing human development. Microfinance is a large and diverse field with many different areas of focus, in general though; microfinance is a type of banking service that is provided to poor or low-income groups who would otherwise have no other means of gaining financial services. Ultimately, the goal of microfinance is to give low-income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance. The process of microfinance began and is still focused greatly on microcredit loans in which the poor can receive small short-term loans. Since then microfinance has grown into something more with organizations offering all sorts of benefits such as savings accounts and insurance. A majority of microfinance institutions offer non-financial services such as training courses and help groups as well. The overall goal has been to create more financial inclusion. In other words to offer the same financial benefits medium and high-income populations have to the lower income populations.

This study analyzes the impact of microfinance on human development through two major questions. Firstly, to what extent and in what ways can microfinance impact the poor? This research question is multifaceted and will seek to address some of the major criticisms of microfinance. Next, has the expansion of the field into for-profit models of microfinance impacted the original goals of microfinance or the ability for these goals to be realized? In other words, is it possible for profit seeking companies to remain accountable and true to social



development objective of the field, and if so to what extent can they have an impact in comparison to their non-profit counterparts?

The data used to answer these questions was obtained by means of interactive research. A total of seven interviews, six formal and one informal, were carried out of a wide range of experts working in microfinance between October 13<sup>th</sup> and November 2<sup>nd</sup> 2015. All interviews took place in the Geneva area and lasted anywhere from forty to ninety minutes. Interviewees were chosen based on their professional positions within the field and a focus was placed on selecting a variety of subjects in an attempt to limit bias. Information on each interviewee can be found in the attached interview log at the end of the report. While every expert was asked a few of the same basic questions, the focus of each interview was slightly different based on his or her area of expertise. The interview questions also shifted and became more focused as the research progressed.

All SIT independent study projects are supervised and approved by a human subjects review board in order to ensure the research is done ethically and vulnerable populations are protected. Though none of the interview subjects of this study were of vulnerable populations, they were nevertheless made aware of the purpose of the study. Though only some of the interviews were recorded, depending on the formality of the setting, everyone who was recorded gave their consent beforehand.

This report is first and foremost meant to detail the results of the interactive research study thus the use of secondary sources in the form of published literature is intentionally limited. To be true to the interactive research process, the information gathered from interviews is the main focus of this report and is heavily relied upon while published literature is only used in support of the primary sources and also to give background information. The following report

will be separated into two major sections, each pertaining to one of the research questions. Each section will include presentation and discussion of data, as well as deeper analysis pertaining only to the individual question being addressed. Connecting theories and final interpretation of the overall study will be left for the conclusion section of the paper.

## **Background and Major Contributors**

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Before launching into the results of the study it is necessary to explain briefly what has become of the microfinance field since its inception, focusing on the major contributors as well as highlighting the general goals of the microfinance field. This will help to give context to the research questions in particular.

The beginning of microfinance is often credited to a rural Bengali professor and his seemingly simple idea. Nobel Peace Prize winner Muhammad Yunus was far ahead of his time when he founded the Grameen bank in 1983. Yunus had no idea what he did was so revolutionary or that it would become what it is today, all he wanted to do was open a bank that would grant the smallest of loans to the poorest of the population (Yunus, 1999). Yet the founding of this bank in the small village of Jobra, Bangladesh was the first step in what has become the huge and extremely diverse field of microfinance. After spending two years observing in small villages near professor Yunus's university, he decided to test his theory of financial inclusion of the poor as a possible escape from poverty. After implementing a group lending method, which will be discussed in detail later on, the Grameen bank loaned small amounts of about 25USD to individuals who met weekly with their community group as well as a bank representative until all loans were paid off (Yunus, 1999). Initially the Grameen bank system was set up simplistically by design. Over the past thirty years however the design has

evolved immensely and the bank has grown and adapted to the needs of the clients. Today 90% of the bank shares are owned by the clients and 10% by the government (Collins et al 2009). The bank now takes deposits, offers a larger variety of loans, and has a new system of savings accounts and mandatory individual bookkeeping. Yunus's autobiography *Banker to the Poor* (1999), as well as his works *Creating a World Without Poverty* (2007) and *Building Social Business* (2010) are critical to anyone working in or researching microfinance.

The evolution, expansion, and diversification of the Grameen bank mirrors, to a smaller extent, what has become of the field of microfinance as a whole. What began as small independent microfinance institutions (MFIs) has turned into a wide range of different avenues from small self-help groups in rural India, to multimillion-dollar investment funds in Geneva Switzerland. Money is being funneled into MFIs from a variety of different sources such as USAID and the World Bank as well as non-profit NGOs and for-profit corporations of every shape and size. With the continuously growing interest in the field one would think the impact research must be showing positive results. This is not entirely the case. Over the past eight years or so there has been a major backlash against what some thought would be the solution to poverty. Studies have shown that the actual social impact of microcredit loans is minuscule. In addition, some argue the large for-profit funds are greedy and have shifted the focus from human development to pleasing their investors. The media in particular has been pointing fingers as of late, creating a major turn around in the originally positive public image of microfinance as shown by the illustration to the right. This drawing is supposed to depict the MFI Compartamos Banco



The Economist, 2008

profiting off of the poor by charging 79% interest rates.

Non-profit versus for-profit microfinance institutions is a major focus of this research. Non-profits include any organization involved in microfinance from small independent MFIs to large government run organizations. There are even some international funds, such as guarantee funds that are classified as non-profits. These organizations lend out money to small MFIs around the world and while all this money must be repaid, the fund does not make any sort of extra profit from the loaning process. Non-profits take on many shapes and sizes and can be involved with several different types of clients. For-profits are similar in that they are diverse in structure and focus, what separates them is simply the collection of profit. The for-profit division of microfinance has exploded in the last ten years and is the cause for much of the backlash of the public press. One author in particular who has criticized for-profits is Milford Bateman with his book *Why Doesn't Microfinance Work? The Destructive Rise of Local Neoliberalism* (2010).

The other focus of this study is on the second major criticism of microfinance. A series of control trials have been done assessing the actual impact of microfinance on human development and poverty elimination. Keeping in mind microfinance was originally hyped up to be the end of poverty, most studies showed almost no measurable impact. David Hulme discusses these experiments and their methodologies in his paper *Impact Assessment Methodologies of Microfinance: Theory, Experience and Better Practice* (2000). With such sobering results many in the general public have abandoned hope for microfinance altogether while others are not giving the studies much credit and focusing on other human development categories that are far more difficult to measure by controlled trials. One such work, which has also become extremely popular, is the four-author book *Portfolios of the Poor How the World's*

*Poor Live on \$2 a Day* (2009). This book eliminates the problems often present with big data and looks closely into the lives of microfinance clients, how they think about their finances as well as how they spend their loans. These major works were the main drivers of this study. The research questions were chosen based off of common criticisms of the field found in secondary literature.

## **Extent of Impact on the Poor**

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**Question:** Realistically, what impact can microfinance have on the world's poor? This first research question is multifaceted and difficult to fully answer. While at first microfinance was seen as the one major breakthrough the world had been looking for and was thought to bring an end to poverty, the tune has changed in the last decade or so. As discussed previously several control trial studies have been released showing little promise for the possible influence of microfinance on their clients. This along with highly publicized criticisms of the MFI Compartomos Banco in Mexico, USAID, as well as the 2010 microfinance crisis in Andhra Pradesh, India has lead may to turn away from the field as a whole.

What everyone hoped to see and what the controlled trials examined was the ability of microcredit loans to lift people out of poverty by giving clients small amounts of money to invest into their own entrepreneurial agendas. Small loans given to people working independently in the informal market would give them the chance to invest in themselves and grow their businesses. Overtime the microfinance industry has developed new impact goals including improving the health and overall livelihood of their clients. Is this really possible? What can microfinance do for the world's poor? Are any of these goals being realized, and if so to what extent?

**Research Results:** The interview information gathered to answer this research question can be sorted into two parts. I will begin by discussing the participant's reactions to the sobering research studies, and then go into social impact, the term they often used to describe the influence of microfinance on the poor. The analysis of the interview data will follow.

In response to the several research studies done over the past twenty years most of the experts were not surprised by the findings. Bernd Balkenhol, professor of finance at the University of Geneva states that out of the fifteen decent control trials out there, none of them had a time frame longer than two years. He says, "after two years it is too early to expect major changes in consumption, income, health access, or anything" (Balkenhol 2015). Craig Churchill, chief of the Special Financing Program in the ILO, shares a similar view on the short time-lines of the studies and both find the indicators of the studies rudimentary. They both explain the indicators are focused too much on job creation and returns instead of social and behavioral changes. Those who do try to evaluate social indicators do not do so properly and run into many methodological problems (Churchill 2015, Balkenhol 2015). Lore Vandewalle, assistant professor of economics at the Graduate Institute of Geneva, adds many of the studies are done in areas where MFIs are already flourishing, making her strongly question how the control groups are really free of the influence of MFIs. She believes there will never be a sufficient answer via a controlled study on the impact of microfinance, yet this does not mean it should be taken away as this would unquestionably have a negative impact on the poor (Vandewalle 2015).

Though none of the interviewees were surprised by the research studies of the past this did not cause them to lose hope in the capacity for microfinance to do good. Unlike the general public the experts were more realistic with the possible impact from the start and understand now more than anyone that the impact microfinance is having first, cannot be easily measured and

second, is not what was originally expected. All agreed the financial inclusion microfinance offers the poor has a larger social impact than a financial one and that this social impact is just as important for human development and poverty elimination as financial impact.

Churchill explains how social benefits are directly correlated to financial gains especially in the poor community when business is usually more closely tied to the home (Churchill 2015). Churchill gives the example of smoothing consumption as one of the greatest benefits MFIs can offer their clients. Smoothing consumption refers to using microcredit to prevent periods of extreme poverty that is common during low harvest times, after health shocks, or some other unsuspected emergency. Situations like these can cause families to take children out of school, funnel potential investment money from their family business to feed themselves, or force them to work in extreme or even dangerous conditions. Vandewalle summarizes this viewpoint clearly in the quote below.

*“[Microfinance] does not help people become richer, it might help them to overcome shocks that could otherwise have long run negative impacts. If someone falls sick they are more likely to keep kids out of school to help in the field. A month or so later the family member may become healthy again but the kid will not necessarily go back to school.”*

-Lore Vandewalle, 2015

Many argue however that consumption lending is wasteful and counterproductive to the goals of microfinance. Critics say when loans are not regulated and put directly into a client's business, the loan is likely to be wasted on meaningless items and have no impact on the family

(Bateman 2010). This is not just the words of one critic either as Pierrick Balmain, a portfolio manager for BlueOrchard Finance, explains that his company does not want to be involved with an MFI that does strictly consumption lending (Balmain 2015). Churchill does not completely agree with these critics who say consumption lending goes against the true goal of microfinance. He believes smoothing consumption is important to a client's livelihood and setting limitations on what clients can do with their loans is neglecting the more holistic possibility of microfinance. He argues poor clients need access to financial benefits in the same way if not more than the medium and high-income populations. He says the misconception that the poor do not know how to use financial services correctly and are likely to waste loans on consumption spending is completely false (Churchill 2015).

The idea of smoothing consumption is only one way financial inclusion can have a social impact according to the interview participants. Another major point brought up was the possibility for women's empowerment. Many MFIs have copied Yunus's model of group lending and support and integrated it fully into their lending process. The group lending model is when an entire group of 5-20 people share responsibility for a loan. Though models vary, usually the members of the group have to meet on a weekly basis with a member of the MFI and also put a small portion of every loan into a group saving account, which they can lend out in emergency situations. These groups are commonly dominated by women as they are three times more likely to take out a microloan and pay it back than men (Collins et al 2009). Vandewalle explains how the women in the rural Indian microfinance groups she was researching became extremely close. The groups she was involved with were composed of fifteen women and some had been together for more than ten years. Since this type of microfinance has exploded throughout India a sort of collective action is taking place throughout several villages. Local



politicians recognize these groups as a new part of their electorate and are beginning to focus more on women's issues and listening to the groups' calls for better education programs and increased welfare for women (Vandewalle 2015). This movement would not have occurred, Vandewalle argues, if it were not for microfinance. She says because the main focus of the groups is financial gain, the men of the villages supported their wives. Had the groups been any other type of civil society group she believes most of the husbands would forbid their wives from participating, especially if the focus was primarily political (Vandewalle 2015).

Many of the interviewees also agreed on another point in that microfinance does not have much impact, socially or financially, on the poorest of the poor. Balkenhol states it is true the most vulnerable clients are not met, as people still have to be able to plan to some extent to be able to use credit. He says "people who don't know what they will do tomorrow, really the destitute, you cannot reach them with microfinance" (Balkenhol 2015). Churchill agrees that clients that usually make the most use out of financial benefits such as insurance and savings are those who already have a bit of an entrepreneurial spirit (Churchill 2015). Yet it seems there are some organizations out there dedicated to fixing this problem. Alain Vergeylen, executive director of the International Grantee Fund (FIG) in Geneva says the fund's main goal is providing grantees to MFIs that are serving the poorest of clients and would not otherwise be able to forge a relationship with local banks if it were not for the backing of their institution (Vergeylen 2015). There are also organizations, Balkenhol explains, focused on graduation loans. These types of loans are given to those who do not even qualify for a microloan and are not monetary loans but physical loans such as seeds or farming equipment. These loans are meant to help clients get started until they are able to apply for a real financial loan (Balkenhol 2015).

**Analysis:** The data from the interviews suggest first and foremost microfinance does have an impact on the world's poor. This impact is more social than financial yet that does not mean it is in any way less meaningful. Human development is as much social as it is financial. Education and health levels correlate with development index scores as much as a country's GDP. Microfinance is not going to lift people out of poverty though it does have an influence on behavior.

Clients are more likely to keep their children in school and work in better conditions than they would without the loan security. The group model widely used by MFIs is also having a visible impact. These financial groups have enabled women to form relationships with other community members and given them a network to voice their concerns about a wide range of matters. The wide popularity of such groups has forced politicians to take notice and consider them as a new and important part of the electorate.

This study also suggests the major research studies of the past, which have focused mainly on the financial impact of microfinance, are not painting a clear picture of what microfinance has to offer. Not only did the studies have a difficult time pinning down a control group they were done over such a short time span it is unlikely any sort of change could be detected. With that said it is not clear a longer evaluation period would make any real difference. With fluctuation of the economy it would be difficult to say if microfinance was the main reason for a change over a longer period of time. Thus it would appear many of the impacts of microfinance cannot be measured by controlled trials such as the ones done as of late. It is likely smaller level precise analysis of individual clients within a community, such as the one done by Collin's, will help illuminate the real impacts of microfinance (Collins et al 2009).

The negative press microfinance has been receiving is a natural rebound to the hype that came before. It was natural and had to happen. Despite the common perception today however, academics and professionals alike working in the field continue to support microfinance and the impact it can have on human development. The problems the field still faces in terms of reaching the poorest clients is a work in progress and is likely to be addressed as the field continues to evolve and grow.

## **For-Profit Microfinance**

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**Question:** Does the new for-profit field of microfinance follow the original set of goals pertaining to human development? If so, are for-profits better or worse at meeting these goals in comparison to non-profit organizations such as public institutions and small NGOs? This two part research question focuses on the rapid growth of the microfinance field over the last thirty years and more significantly its shift to for-profit models in the last decade. This growth has led some to question the legitimacy and focus of the field as a whole. The press has been especially critical over the last few years, completely changing the tune from the overwhelmingly positive public response circulating only ten years ago when microfinance was extremely popular. Though many of the non-specialized publications are highlighting large scandals that tend to be more emotionally driven than fact driven, this has had an impact on popular opinion. The academic literature has been increasingly critical of completely separate issues dealing with the profit seeking division of the field. Several published works argue along with Milford Bateman that for-profit microfinance professionals no longer have the best wishes of the poor in mind and are solely focused on their monthly return. Bateman's has written an entire book not only about why microfinance does not work but also how it has actually turned into a field run by greedy

businessmen who are taking advantage of the poor (Bateman 2010). The number of scholars who share Bateman's opinion has increased as of late and the major focus of each publication points back to the expansion of the for-profit side or the rapid growth of the sector.

Multimillion-dollar investment funds are easier to demonize than say a small non-profit NGO focusing on women's empowerment through financial inclusion. So are the criticisms valid? Is it possible for for-profit corporations to remain accountable and focus on social impact or have the original goals of microfinance been abandoned? Also, if these original goals of social impact are still a present force, are for-profit companies better or worse than other microfinance institutions at meeting these goals?

**Research Results:** Every one of the seven interview subjects was asked to give their opinion on the subject of for-profit microfinance organizations and their commitment to social impact and human development. One of the interviewees, Silencer Mapuranga of the International Trade Center, shares Bateman's strong negative opinion of the for-profit model. Dr. Mapuranga argues large impact investment funds such as the ones run out of Geneva do not involve their clients, as in those borrowing the loans, into decision-making processes like smaller non-profit organizations do. Because of their large size, these funds invest into MFIs around the developing world without knowing about the clients of each individual MFI receiving the investment. He argues it is very difficult for such large companies to have a relationship with every client, something that is necessary for microfinance to have a positive human impact (Mapuranga 2015). This interviewee gave the most radical answer compared to the rest of the participants.

The rest of the interviewees showed a slight range from complete preference of for-profits over non-profits while others were far more cautious about giving for-profit companies

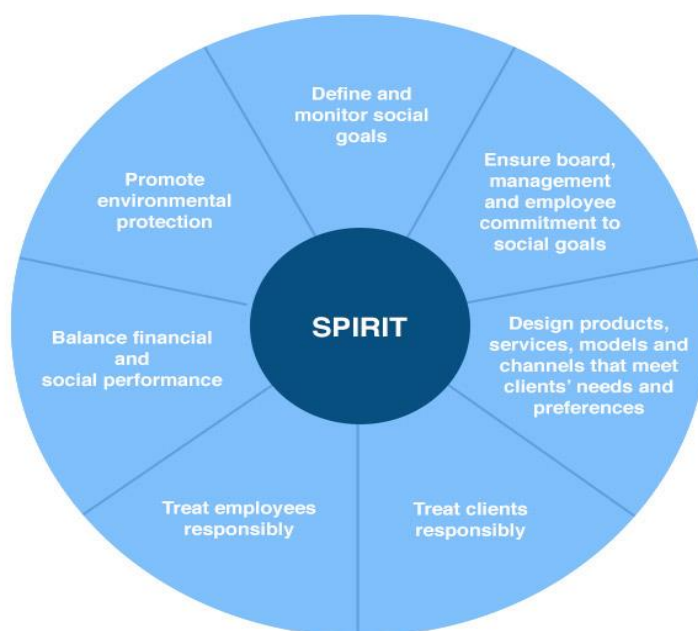
their full support. Churchill argues it is impossible to generalize every for-profit microfinance organization. There is a very large range with varying goals and capacity. He argues the greatest risk of for-profit companies is when they grow too quickly and are unable to manage the risk properly. He does not think for-profit companies necessarily attempt to understand their clients any less as Dr. Mapuranga suggests. In fact he states for-profit companies are *more* likely to pay attention to their clients as they have a responsibility to their investors to be sure the investments are being managed and the risk analyzed (Churchill 2015).

Balkenhol shares a similar opinion. He answered rather plainly that MFIs have not lost their original mission stating, “I would not say the field as a whole has moved away. To the contrary I would say it is much more conscience of the need to demonstrate impact on the poor” (Balkenhol 2015). He continued by arguing the big mistakes that were made and highly publicized, such as the Campartamos Bancos scandal over terribly high interest rates of 70%, has caused large impact investors to be more careful and accountable than non-profits who are less likely to be scrutinized. Impact investors have been capitalizing on what was started by small MFIs but they are doing so in a socially responsible way. He states nobody talks about social impact research more than impact investors, as they must highlight this aspect of their market in order for them to grow as nobody backs corporations in microfinance who are not socially conscious (Balkenhol 2015).

Professionals working within the for-profit microfinance business do take steps to ensure their investments are socially responsible. Jacques Grivel, founder and CEO of Fundo Asset Manager, launched into impact investment banking with the start of his fund Finethic: a play on words referring to ethical financing. When interviewed Grivel confessed managing the social impact of Finethic is one of the most difficult yet important parts of the job and why he started

the fund in the first place. He states he has visited every MFI his company invests in and has been to several that they have disregarded. He also looks into the client portfolio of every MFI and requires monthly reports to be shared. When choosing which MFIs to fund, risk analysis is only one component of the evaluation process. Grivel states they also look at how the organization is managed including the loan default policy as well as what type of clients are granted loans. Grivel is always cautious when imposing regulations onto borrowing MFIs stating, “what is good and what is bad is not for me to say” (Grivel 2015). He feels a top-down approach is not necessarily the best approach and having several different shareholders attempting to impute their own visions can prevent the MFI from being successful. There are several grey areas as well as some deal breakers, he explains, in which it would not be socially responsible for Finethic to support a particular MFI (Grivel 2015).

Balmain explains BlueOrchard’s process of accountability in even more detail. He discussed SPIRIT or the Social Performance Impact Reporting & Intelligence Tool used by BlueOrchard to evaluate the social impact of their partnering MFIs (See figure below).



The seven categories encompassed by SPIRIT are reported annually. Balmain shared that “BlueOrchard strives to have the best of both worlds, to have social impact as well as financial performance” (Balmain 2015). He attests though sometimes trade-offs do happen in that they would have to give up a good investment when an MFI is not performing socially, the company would never make concessions in the opposite direction, giving up social performance for a financial return.

Vandewalle, though her research is mainly focused on non-profit microfinance institutions did have something to say about the second section of this two-part research question: If for-profits do remain accountable and strive for social impact, are they more or less able to have an impact than non-profits such as public institutions or small NGOs? Vandewalle, admits that though there are problems with microfinance, the sector must be largely for-profit if it is to be sustainable. She argues it is the only way anyone would be interested in investing so much needed capital. Another argument Vandewalle makes is the large size and possibility of growth of for-profits is also beneficial. As loans grow in size and duration, interest rates on the poor can go down and costs become more efficient (Vandewalle 2015). Churchill agrees with both of these statements saying efficiency and the amount of available capital are the major benefits of the for-profit model (Churchill 2015).

Grivel and Balmain also share this point of view and add reactivity and professionalization as other components of for-profits. Grivel is a firm believer that the most efficient as well as sustainable way to increase financial inclusion is via for-profit institutions as privately invested funds can be mobilized much faster than public funds (Grivel 2015). Balmain elaborated on this fact as well. He mentioned reactivity as one of the major benefits of for-profit companies. BlueOrchard specifically is able to make decisions quickly and have a rapid turn

around while public institutions move slower due to the number of bureaucratic decisions that have to be made and guards put in place to protect public funds (Balmain 2015).

Balmain also explains the professionalization of the for-profit division has helped the field grow and is beneficial for the loan recipients. While Balmain feels philanthropy is completely respectable, he believes professionalized microfinance can go beyond. For-profits are able to attract talent from everywhere far more easily than charity organizations. He argues, “having good workers with financial background helps lessen the risk of the fund and gives it the ability to fulfill its promises to its clients” (Balmain 2015).

**Analysis:** The information gathered from the interviews on the topic of for-profit microfinancing supports firstly for-profit corporations are indeed striving towards the original goals of microfinance and are more likely to achieve these goals than their non-profit counterparts. Though one participant strongly rejected the claims made by for-profit companies, he was not able to offer any specific examples beyond the one or two major scandals and extreme situations. Not only that, two professors as well as an ILO member disagreed with his claims completely. While the two participants working in the for-profit field were expected to praise their companies, the voices of the professors especially should be taken into account as they are experts in microfinance as a whole and have no connections to for-profits that may cause a bias. Both professors as well as the Mr. Churchill of the ILO have been working in the field longer than the others and have seen the major changes take place. They agree for-profits *must* be socially conscious and have more on their mind than monthly return or they would have bad press immediately and never be able to bring in enough investors. While these theories alone appear logical, they are further affirmed by the procedures discussed by the two for-profit



professionals Grivel and Balmain. Both men explained the steps their companies take in order to measure their human impact as well as prevent socially irresponsible investments.

These data specifically suggest for-profits are still focused on the goals set forth by Muhammad Yunus of financial inclusion and human development. They also show for-profits may be more likely to have a greater positive impact and sustainable impact than the non-profit division of microfinance. The main points setting for-profits apart are their capacity, efficiency, reactivity, and professionalization. The capacities for non-profits are limited to donations or government funds. Both of these funding approaches are similar to the Band-Aid donation method discussed earlier in that they are not a long-term sustainable solution. Public programs always have an end date and private donations do nothing to connect markets and can often come with expectations and top-down demands from the benefactors. On the other hand, impact investing of for-profits has a much greater chance of growing to meet the needs of the loan recipients. When there is a strong grantee of return or the possibility of profit many more people will be willing to invest. For-profits are therefore able to gather more capital, giving them the ability to offer financial services and the possibility of improvement to more people.

The second point, efficiency, goes hand and hand with capacity. As MFIs grow they almost always become more efficient which is in turn more beneficial to the borrowers. They are able to offer more and more loans and increase the size of the loans on average. With this comes the lowering of interest rates on the borrowers as well as the possibility for them to grow with the organization by taking out more loans of increasing size over time. Conversely, non-profits with low growth potential are less likely to consolidate costs and streamline their processes. This makes it necessary for non-profits to charge consistently high interest rates, which is one of the major criticisms of MFIs.

The increased reactivity of for-profits and particularly those working in impact investing is crucial for the sustainability of many MFIs. The bureaucratic channels meant to protect government funds makes it difficult for MFIs to sustain when relying on government microfinance organizations such as the World Bank and USAID. For-profit investors are often more streamline in their decision-making and can offer loans to MFIs more rapidly. The only situation in which this is not useful is for young MFIs. Institutions just starting out are not likely to get for-profit investment funds to back them from the beginning. In this situation the MFI is likely to have to rely on government funds to begin.

The last of the four components, professionalization of for-profits is less talked about yet equally important. Bringing in new talent and fresh ideas is a key component to any organization's success. The ability of for-profits to offer life-long careers in a variety of positions across the world far exceeds that of non-profits. While non-profits are more likely to attract professionals with a background in humanitarian work and development studies, it is unlikely that these individuals will stay with a particular organization for long. For-profits bring in a range or knowledge in the development as well as the financial side. These professionals are often given a wider range of options and able to have more flexibility and security than those working for NGOs.

Each of these four components give for-profits a leg up on non-profit organizations. Their capacity to invest more and streamline management increases their ability to positively impact more people. They can offer a wider range of financial options and are better at monitoring and ensuring their investments are having a positive impact on the communities they are involved in. While non-profits can still have a positive impact, they are less likely to have a sustainable influence on the same number of clients as for-profit institutions.

## **Conclusion**

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Though microfinance is not the one solution to poverty as so many had hoped, financial inclusion continues to have a social impact on those it reaches. It is a new strategy making an impact on very old problems. Additionally, it is doing so in a way that is sustainable. For something to be sustainable it must be able to change and evolve alongside the world and outlast political and economic shocks. It must in no way harm either the people currently involved or those who will come later. Past methods of human development intervention did not have this sort of lasting capabilities. Philanthropic donations always run out and reliance on government donations is bad for two reasons, mostly the receiving governments never use these donations in the smartest way and also the donors themselves usually have some sort of motive behind the loan. Putting hope in economic regulations within a government is also not sustainable. The majority of developing countries and transitioning countries face some sort of political unrest or at the very least poor governance. Regulations put in place one year in order to promote financial and social development is not a sustainable solution if they cannot outlast power changes within the government. Microfinance, unlike the rest of these strategies, has been able to grow and evolve overtime. It has shown its resilience throughout financial crisis as well as political changes in many countries around the world. One expert, Jacques Grivel of Finethic, states microfinance has been affected by other world markets (Grivel 2015). MFIs have consistently continued to offer financial benefits to clients in the toughest of economic times.

Aside from sustainability, the topic of development has also branched off and become more complex. Large data and new technology allows us to learn more and more about the world everyday. Knowledge and data is growing at an exponential rate and new discoveries are being made constantly. Political scientists now know human development, both the cause for

increased development as well as the reasons why development stagnates is affected by way more factors than everyone used to think. The environment, physical *and* mental health, politics, culture and social factors all contribute to human and financial development. Addressing all of these factors seems daunting yet it still needs to be done. We have learned that top down approaches are rarely sustainable and often not inclusive of vulnerable or minority populations. At the same time bottom-up approaches are extremely difficult to start and more often than not burn out quickly. Microfinance does a good job of marrying these two approaches. It is so diverse and well thought out that every level of society is involved in some way. Governments are involved, small non-profits, large multinational companies; there is a place for everyone. Microfinance institutions cover a wide range of specialties and each one has its own unique focus based on the clients they loan to. Because of the large amount of capital, corporations and organizations are able to expand and meet their clients changing needs.

Even the for-profit sector of microfinance is having an impact. Despite popular criticism for-profits have been able to flourish while still staying true to the original goals of microfinance. This private-public sector goal sharing is said to be the next step in furthering development. Governments and non-profits cannot solve all the world's problems when multinational corporations control the majority of world's capital. There has to be a dialog between private enterprises and the public sector if any progress is going to be made. Microfinance has been perfecting this dialog over the last ten years and will hopefully serve as a model for what is possible for the future.

## **Abbreviation List**

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(FIG) International Guarantee Fund

(ILO) International Labor Organization

(MFI) Microfinance Institution

(NGO) Non-Governmental Organization

(RAFAD) Research and Applications for Alternative Financing for Development

(SIT) School for International Training

(UNOG) United Nations Office at Geneva

(USAID) United States Agency for International Development

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