FINANCIAL SERVICES VERSUS DEVELOPMENT: “BEST PRACTICE” FOR DEVELOPMENT AND GENDER EMPOWERMENT IN MICROFINANCE

By

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ABSTRACT

The debate in microfinance, between “left and right” political economy approaches to development, can best be settled by examining the impact of microfinance as it is practiced. Microfinance began thirty years ago as a reputedly progressive development based approach to poverty alleviation. A development approach informed service delivery in the 1980s and early 1990s, focusing on using microfinance to help alleviate poverty and provide gender empowerment. Currently, microfinance practice is dominated by a neoliberal paradigm that is centred around provision of financial services, and a program delivery focused on the fiscal sustainability of the microfinance institutions. This transition has impacted program delivery. Despite a consensus that microfinance has the potential to improve the situation of impoverished women when paired with the interventionist and educational components of the original development conception (Greenspan, 2002, Sebstad and Cohen, 2003, Karlan and Valdivia, 2006, Karlan, Harigaya, and Nadal, 2006, Frisancho and Valdivia, 2006, Kessy and Temu, 2010), the industry no longer provides these services due to the shift from a development approach to the neoliberal financial services approach. Moreover, the current methods used to ensure high rates of repayment not only further entrench existing gender roles but actually run counter to the “development wisdom” which originally informed microfinance practice.

The move away from a development approach has come under fire from feminists and economists. They contend that pre-existing inequalities are being further exacerbated by microfinance. It is now clear that a financial services approach to microfinance achieves neither development goals nor gender equality. This thesis will advance that microfinance needs to be paired with a broad range of objectives and initiatives, in line with a development approach, in order to achieve gender empowerment and development goals.

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Chapter 1 Introduction

1.1 Introduction: Debating Microfinance

Microfinance has become a subject of significant controversy in the study of international political economy and development. The controversy lies in answering two questions: Does microfinance deliver on its early promises of development and emancipation? If not, why not? In order to answer the first question, the goals of the industry have to be clear and how we evaluate those goals also has to be clear. Microfinance began with explicit goals. It is now evident these goals have not been met. Wherein lies the cause of the failure? Is it because the industry does not administer itself in the manner it determined was the most effective for achieving those goals? That is, does it no longer deliver education programs and community building efforts in conjunction with financial services and lending? Have the goals of the industry experienced a normative shift? Perhaps financial gain, rather than development and emancipation, are now the r*aison d'être* of microfinance institutions? Has a shift in goals caused a shift in practice? Or is microfinance simply not the best tool in our development arsenal for achieving these goals?

This project focuses on the rivalry between a development-centred orientation to microfinance and the mere provision of financial services. The discrepancy in these two approaches and the rising importance of the financial services program architecture provides a starting point for resolving debates about the development potential of microfinance. These two approaches have divergent goals for microfinance, creating competing criteria for evaluation and incompatible program architectures. The mere provision of financial services with a profit orientation is incongruous with community development and empowerment. While there exists a great deal of diversity "on the ground" in the provision of microfinance, the literature clearly demonstrates that there are two camps within microfinance: those that conceive of it as a means for development and those that see it as an opportunity to provide financial services. While there are many systems and terminology for categorizing microfinance programs, all revolve around this divide. The first group shares the common goals of poverty alleviation, empowerment and a challenge to the existing power structure. This is how microfinance was initially practiced and has been described using terms such as “Welfarist” (Woller, Dunford and Woodworth, 1999, 28), “Targeted Lending” (Maclean, 2010, 497), and “Transformatory” (Holvoet, 2006, 38). These approaches shall be referred to collectively as the development camp.

The second group advances a more neoliberal, fiscal approach. This camp has been described using terms such as “sustainability” (Rhyne, 1998, 6), “Financial Systems” (Maclean, 2010, 497), “institutionalist,” (Woller, Dunford and Woodworth, 1999, 1), “commercialization” (Lützenkirchen, Weistroffer, and Speyer, 2012, 5) and “instrumentalist” (Holvoet, 2006, 38). These approaches are grouped together due to their shared emphasis on a business model approach which focuses on cost recovery, breadth of outreach, repayment rates, institution building and encouragement of existing gender roles and the existing power structure. This group shall be referred to as the financial services camp. The financial services approach to microfinance maintains the status quo, while the development approach challenges it. These definitions and the various terms that inform them will be further elaborated on in the literature review.

Table 1 Making Sense of Microfinance

Approach	Terms	Definitions	Theme
Microfinance as Development Model	-Welfarist -Targeted Lending -Transformatory	-direct poverty alleviation -empowerment -change gender relations	Change the existing power structure, improve the quality of life, transform gender relations
Microfinance as Financial Services	-sustainability -Financial Systems -institutionalist -commercialization -instrumentalist	-cost recovery -breadth of outreach, repayment rates -institution building, cost recovery -market-based interest rates -manipulation of gender power relations, cost recover	Access to financial services and cost recovery are paramount. Maintain status quo in terms of gender roles.

Given the range of practices involved in these competing conceptions, microfinance is now often defined simply as "a set of financial practices designed to serve the unbanked poor" (Armendáriz and Labie, 2011, 3). This includes "loans, savings facilities, insurance, transfer payments, and even micro-pensions" (Littlefield, Murduch and Hashemi, 2003, 1). It provides a private, or nongovernmental, alternative to traditional self-help financial services such as rotating savings and credit associations (ROSCA) or Self-Help Groups (SHGs) in which the members pool and share their savings (Banerjee and Duflo, 2011, 186). These groups are informal, community based, and often based on ties of friendship or kinship. Enforcement is social rather than legal. It also provides an alternative to traditional reliance on pawnshops, finance companies, chit funds, or moneylenders as sources of credit or financial services (EDA Rural Systems Pvt Ltd, 2005, 16). Microfinance was intended to address some of the perceived problems with existing small scale lending practices, such as: high transaction costs, the difficulty of measuring risk, the cost of monitoring clients and the absence of collateral (Moon, 2009, 111). Microfinance was also seen as a much cheaper alternative to pawnshops, finance companies, chit funds, or moneylenders due to the low interest rate charged when it was first conceived.

Early microfinance models in India under the Grameen Bank utilised the SHG model to "allow small groups of women (generally no more than twenty) to come together as a 'solidarity group' and, among other things, obtain a low-cost microloan through funds passed down to them from the formal banking sector" (Bateman, 2010, 11). The Grameen model offered loans of less than one hundred dollars as seed money to start businesses requiring that the recipients begin income-generating activities and that the borrowers transitioned to savers. At the time, the Grameen model was closely tied to broader ideas about development and the funding included requirements that borrowers:

(a) recite the Grameen guiding principles,
(b) repair and improve their houses,
(c) drink well water,
(d) plant seedlings yearly and grow crops year-round,
(e) build, repair and use latrines,
(f) introduce physical exercise in the centres,
(g) oppose dowries,
(h) insist on self reliance and reject a victim mentality, and
(i) take responsibility that the whole solidarity group not fall behind (Desta, 2009, 4).

Here, we see the early emphasis on education in microfinance. Many of these goals were accomplished in the weekly loan meetings. Other microfinance institutions (MFIs) offered training in financial, job, or life skills, either as a requirement of the loans or on a voluntary basis (Frisancho and Valdivia, 2006, 1). Microfinance promised employment opportunities, increased entrepreneurial spirit, increased productivity, economic security, improved nutritional and health status, improved housing conditions, increased asset possession and wealth creation, social empowerment, awareness and educational improvements, improved self-esteem, increased sense of dignity, organizational and management skills, mobilization of collective strengths and increased independence and greater financial solvency (Afrin, Islam, and Ahmed, 2010, 10).

Despite the consensus within the literature that education and meetings, similar to those first conceived by Muhammad Yunus when setting up the Grameen Bank, were beneficial (Greenspan, 2002, Sebstad and Cohen, 2003, Karlan and Valdivia, 2006, Karlan, Harigaya, and Nadal, 2006, Frisancho and Valdivia, 2006, Kessy and Temu, 2010) these practices have fallen by the wayside. For example, Proshinka, a leading microfinance institution (MFI) in Bangladesh, cut primary education, adult literacy, and cultural programs due to the withdrawal of donor support (Karim, 2011, 65). For other MFI, the emphasis on training has also waned in recent years, in part due to a move away from lending practices which involved weekly meetings and towards individual lending programs (Morduch and Rutherford, 2003, 16). Some of these additional services and training have been taken on by non-MFI nongovernmental organizations (NGOs) and are no longer necessarily coordinated with lending (Morduch and Rutherford, 2003, 16). Many organizations still tout education as being included in their initiatives but the actual practices of field workers for the MFIs now revolve around repayment collection at weekly meetings (Karim, 2011, 75). In this movement away from educational programs and towards a greater focus on lending, we see the development of the schism between the financial services advocates and the development proponents. No longer do we see development-oriented practices in microfinance despite the assertion within the industry that education is beneficial in achieving goals beyond high repayment rates.

The microfinance industry set rather lofty goals for itself and yet is not following the recommendations for reaching those goals. Beyond the discrepancy between the consensus on the importance of education and industry practice, there is also a chorus of overlapping and competing critiques of microfinance's economic and gender impacts.

1.2 Economic Objections

Several long term studies have illustrated that many of the measures for economic growth or success in areas where microfinance is heavily practiced have not changed in over twenty years (Imai and Azam, 2012, 634). In Bangladesh, home to more than 1000 MFI-NGO and 17.32 million borrowers, poverty has declined by only one percent per year since the 1990s, while the absolute number of poor has increased from 55 million in 2000 to 56 million in 2005 and the percentage of those facing hardcore poverty has held steady (18.8 percent in 2000 and 18.7 percent in 2005) (Imai and Azam, 2012, 634).

While many of Bangladesh's poor have received microfinance assistance, much of the loans have been used to smooth the consumption spending of households when they have financial shortfalls (Bateman, 2010, 25). When this happens, the loan is not used as an investment and does not increase household income (Imai and Azam, 2012, 639). Households often use loans to purchase food between harvests, for example, rather than investing it in an entrepreneurial activity. For the poorest (incomes less than eighty percent of the poverty line), nearly 70 percent of loans are used for consumption (Moon, 2009, 130).

Also, it is argued that the "graduation rate" for microfinance, the rate at which self-employed borrowers build up enough wealth to start full scale firms, is contingent on a number of factors, not the least of which is the motivation of the industry to promote that kind of success (Ahlin and Jiang, 2008, 1 & 18). If MFI have a vested interest in maintaining their client base, rather than allowing them to move on to more formal lending institutions, their lending practices will reflect that. Incentives, even for loan managers, to encourage graduation would likely lead to modified lending practices in terms of loan amounts and repayment schedules. Larger loan amounts, flexible and longer repayment schedules are more conducive to the return on investments for more profitable businesses, but most MFI lending does not reflect this. While economists worry about these inherent disincentives to graduation, the transitions from microfinance dependency to small-medium enterprises (SMEs) are seen as key stepping stones for individuals and a cornerstone of an effective development strategy of economies seeking to industrialise (Bateman 2011, 171). Indeed, from a more critical perspective, there are “advantages” to impeding graduation at the local level. Large firms often benefit from the kind of "flexibilized’ local labour market that results from a dependency on microfinance, which drives down wages, makes for poorer working conditions and cheaper, informal supply chains (Bateman, 2010, 92). The basic point is that while many economists question the effectiveness of microfinance as a development strategy, some critical political economy raises doubts as to whether microfinance within a larger ensemble of neoliberal development strategies, is even about “development”.

1.3 Feminist Objections

Feminists have also engaged with microfinance as it provides an example of the broader pattern of failures in the neoliberal development paradigm. Neoliberalism's ascent since the 1970s has helped create a culture in which assistance for development goals in the form of "government financial support should neither be sought nor offered . . . [and] . . . a firm belief in the financial self-sustainability of *all* institutions that operate in the economy and society" (Bateman, 2010, 13). Sharing concerns with critical political economy and the ideals of a more "welfarist" perspective on development, feminist scholars have also written extensively on the negative impact of structural adjustment policies, the "Washington Consensus" and the culture of self-reliance underpinning more explicitly neoliberal development ideals. However, feminist critiques understandably tend to move beyond seeing neoliberalism and microfinance in "*dependentista*" terms.

For feminists, the "devaluation of women's work and of work done in sustainable economies is the natural outcome of a system constructed by a capitalist patriarchy" (Shiva, 2004, 28). In a system where "multinational corporations are the 'muscle and brains'" (Russell Hochschild, 2004, 35), values central to life are not simply ignored, they are quashed. From the devaluation of child care under globalization (Russell Hochschild, 2004) to the assault on food security (Shiva, 2004), all that is central to human life, and the quality of human life, is destroyed. This is a direct challenge to feminism and the values it advances. As such, "intensifying globalization/neo-liberalism" has been identified as a direct threat to transnational feminism due to the damage inflicted by structural adjustment policies, the dismantling of the welfare state and misguided interpretations of development (Jindy Pettman, 2004, 55). For feminists, the last few decades have involved a shift in the development architecture towards a systematic embrace of policies that favour the interests of the wealthy in Northern states at the expense of "harsh financial reform which often negatively impacts women much more than men" (Jain, 2004, 69) in the South: thereby increasing “the gap between the power and status of men and women” (Sapiro, 1998, 170). Furthermore, it is argued that contemporary development policies have increased the work of women who strive to compensate “for retrenchments in health and social services” (Alexander, 1991, 148). Family life has been destroyed as those controlling production are “unconcerned with the interests of the labourers” (Gilliam, 1991, 221). This “shrinking state role in the realm of social policy” has also resulted in the cooptation of NGOs, which have become "service providers" in a development regime that clearly does not aim to aid those it purportedly supports (Alvarez, 2004, 135).

Initially microfinance was seen, in part, as a “corrective”, or response, to the intensifying, top down neoliberal approach to development. It conjured up images of grass roots development initiatives that would "give poor communities the opportunity, and then get out of the way!" (Hatch, 2012). While this vision may never have been accurate, the transition to program-delivery based on the financial services paradigm has important implications for the development and empowerment of women in the global political economy.

The neoliberal “assault on human life” outlined by feminist scholars extends to the frontline practices of microfinance. Whatever the original potential of microfinance was, as the development model declines, it has been suggested that there is an increased reliance on practices which instrumentalize gender roles to ensure high repayment rates. A number of observers have suggested that MFI applying "coercive enforcement methods . . . social pressure, verbal hostility, (and) harassment" (D'Espallier, Guérin, and Mersland, 2010, 768) or shaming (Banerjee and Duflo, 2011, 167) use existing gender inequalities to ensure repayment. Indeed, Karim (2011, xvii) argues that the entire approach to governmentality of contemporary MF programs, the basic rules and supervisory procedures, is increasingly based on a systemic "economy of shame" focused on ensuring that women will meet the burdens of repayment.

Scholars have long acknowledged that adherence to traditional gender roles ensures that perhaps only five to ten percent of the female recipients of loans actually controlled the money jointly with a male spouse; the rest are required to give it to a male spouse, losing control of the funds completely (Karim, 2011, 55 & 86, D'Espallier, Guérin, and Mersland, 2010, 759). As recipients of the loan, the women still take responsibility for repayment, often picking up additional jobs to do so (Bateman, 2010, 43-44). Effectively, this creates a situation where microfinance is built on the exploitation of traditional gender roles and may increase sociocultural and positional vulnerability (Rahman, 1999 and 2004).

In instances where solidarity lending is used, "sanctioning of individual achievement can help maintain group cohesion" but does not contribute to development or individual success (Maclean, 499, 2010). Solidarity lending is lending to a group of women, rather than individuals, whereby the women provide social collateral for the loan in the absence of physical collateral. As noted by Muhammad Yunus: "If one member fails to repay a loan, all members risk having they line of credit suspended or reduced" (Quoted in Joseph, 2002, 98). Indeed, solidarity lending practices instrumentalize gender roles to ensure repayment, but are the least effective way of ensuring entrepreneurial success. Solidarity lending "works," in the sense that it ensures repayment, in societies where group cohesion is important and where being ostracised or viewed as "different" is undesirable: the nail that sticks up gets hammered down. Yet, the desirability of social cohesion precludes individual success. Societies in which relationships are important, using competitive marketing or pricing strategies is contradictory to maintaining the peace. "Individual success on the basis of competitive entrepreneurship is viewed negatively" (Maclean, 2010, 507). Thus, in addition to whatever damage they may do to gender roles, the structure ensures the women who advance economically will be the exception to the rule.

All of this implicitly runs counter to the claims that microfinance empowers women. The shift away from the development paradigm to increased focus on successful repayment has potentially broad implications; it likely results in a decreasing importance of program evaluation from a development perspective, a decreasing role for education, and a shift away from gender empowerment as a program criteria. All of these trends only increase the likelihood that microfinance will have negative implications for women. In fact, the increasing use gendered cultural constructs to increase repayment, may further exacerbate the gender power gap, and run completely counter to the “development” goals of microfinance.

1.4 Research Problem: Evaluating the Effectiveness of Microfinance

This thesis will offer insight on the debate about microfinance and gender through an empirical examination of how microfinance programs, as they are actually delivered, interact with existing gender relations and our broader understanding of development. Microfinance was born of an era in which public spending was being eroded and public services were being outsourced to the third sector. The harnessing of social capital was heralded as a "progressive" way to introduce an neoliberal approach to development, while still espousing values such as "local capacity building, local self-reliance, net social benefits from reduced transaction costs and increased returns to human capital" (Rankin, 2002, 10). While some have suggested that microfinance could improve the position of women involved in the programs, there is reason to question whether current programs are operating in a manner that does not further entrench the imbalance between men and women in recipient communities.

This thesis will examine the extent to which the contemporary financial services approach to microfinance has compromised its ability to promote development and empowerment. While these goals continue to be lauded as central to microfinance practice, the reality and the outcomes are grim by comparison.

1.5 Research Design

This project will examine microfinance practices under the financial services regime in South East Asia and Eastern Africa. Both regions have dense concentrations of MFI and a wide range of MFI structures. The project will make use of existing primary and secondary sources documenting the practice and effectiveness of microfinance in these regions. In addition, the project will make use of data gathered during fieldwork in the coastal region of Tanzania from May to August of 2013. Focus groups were conducted by myself and a Swahili-speaking woman in eight villages in which the Tanzanian Cooperatives (this is a pseudonym given to the organization) operate. The focus groups consisted of women who were members of the Tanzanian Cooperatives. These eight Tanzanian Cooperatives were chosen as they had been supported for more than one year by a NGO. Support for the Tanzanian Cooperatives consisted of seed money and training. No gender initiatives had been part of the support. The focus groups ran concurrently with interview-based surveys. The focus groups and surveys were meant to evaluate the impact of the NGO programs. The focus groups examined the gender impact of the microfinance programs; however, many of the women were also involved in livelihood activities supported by the NGO.

1.6 Thesis Outline

Chapter 2: Literature Review

This chapter will be explore debates about modern development paradigms situating microfinance within the broader development debate. This chapter will also expand upon the financial services and development conceptions of microfinance. The literature review will also introduce the major objections to the financial services approach from economic and feminist perspectives. This chapter demonstrates, through a review of economic and feminist critiques, that microfinance in line with the financial services model, is a capitalist oriented approach to development.

Chapter 3: Microfinance Program Architecture and Evaluation

This chapter will offer an overview of how microfinance programs are evaluated. This will demonstrate the extent to which development oriented criteria have fallen by the wayside for those delivering microfinance in the developing world, reducing the extent to which microfinance can help impoverished communities achieve “development”. This chapter argues that the manner in which microfinance programs are evaluated not only influences program architecture, but also demonstrates the extent to which the modern industry embodies the financial services model of microfinance.

Chapter 4: The Role of Education in Microfinance

This chapter will outline the importance of education for both the development and financial services approaches to microfinance. However, the literature of the financial services and development camps support education for very different reasons despite a consensus that it has benefits for the borrowers and the lenders. This chapter demonstrates that despite the consensus that education is beneficial, educational programs have been reduced, in part due to the goals regarding education for the dominant financial services camp – to improve repayment rates - being met through other means.

Chapter 5: Instrumentalization of Gender in Microfinance Repayment

This chapter will document how the importance of repayment and profits in contemporary program delivery has inverted the ideals of microfinance regarding gender empowerment. The emphasis on repayment rates have caused a focus on female clients that does not transform, but rather, exacerbates existing gender roles. This chapter argues that repayment rates and not empowerment are central to the female focus of contemporary microfinance.

Chapter 6: Conclusion

This chapter revisits the early potential of microfinance and explores how it would operate *if development and empowerment were goals that mattered*. This chapter contends that microfinance does have development potential but the program architecture and evaluation need to be structured with those goals in mind. That is, development and empowerment will not happen as a side-effect of the provision of financial services. The gap between the rhetoric and the practice of microfinance needs to close.

Chapter 2 The Rise of the Financial Services Model

2.1 Introduction

This chapter argues that the financial services microfinance model currently practiced is a capitalist, money-making venture, in line with the broader neoliberal development ethos. However, it was not always practiced this way. This chapter will chart the evolution of microfinance.

Microfinance was conceived in 1976, just as neoliberalism was gaining traction as the dominant development paradigm. The marginalization of the development approach to microfinance and the rise of the financial services approach occurred as neoliberalism consolidated power in 'development' circles. There are striking parallels between the core values of neoliberalism and the financial services approach to microfinance. In tracing the evolution of microfinance from a pseudo-neoliberal stop gap to the embodiment of neoliberal development policy we observe that the underlying philosophy of a development program impacts both its implementation and outcomes. We will first trace the rise of neoliberalism from the 1970s onwards and then the parallel development of microfinance. Then we will review microfinance's transition from a development oriented approach to merely the provision of financial services. The current conception of microfinance fits in well with a neoliberal interpretation of development. We will further define the development and financial services conceptions of microfinance, fleshing out the various terms and the reasoning behind the grouping. Then we will review two contemporary critiques which examine the extent to which microfinance is empowering and development oriented.

2.2 Debates About Modern Development Paradigms

The 1970s saw the transition to a new orthodoxy and a new critical paradigm. In 1971 the US eliminated the Gold Exchange Standard, commodity prices rose from 1972-74 and OPEC increased the price of oil from $3 per barrel to $12 per barrel (Prashad, 2012, 17-19). The newly unregulated financial markets caused instability and reduced economic growth rates, bringing an end to the post World War II boom and causing a loss of confidence in Modernization Theory, which had been the dominant development paradigm (Preston, 1996, 238). The 1980s saw the emergence of the Reagan and Thatcher governments and the purging of non-neoliberals from the IMF and the UN (Prashad, 2012, 6). Neoliberalism was the “new mainstream development paradigm” (Payne, 2005, 38).

The Neoliberal paradigm derives from neoclassical economics, advocating “free trade as a major vehicle for economic development” (Skarstein, 1997, 20). Neoliberalism demands the "financial self-sustainability of all institutions that operate in the economy and society" (Bateman, 2010, 13). This classic economic liberal position, which stood on the shoulders of John Locke, Adam Smith, David Ricardo, and John Stuart Mill, was expressed in institutions such as the International Monetary Fund (IMF), World Bank, General Agreement on Trades and Tariffs (GATT) and the World Trade Organization (WTO) (Payne, 2005, 11 & 14). Neoliberalism asserted that poverty existed, not due to a power imbalance between nations, but rather because of faulty policies or politics at a domestic level (Payne, 2005, 12). These problems could be rectified with ‘austerity’ measures which proponents asserted was a “bitter medicine” that would restore stability (Prashad, 2012, 48). Austerity was to be applied from a “monoeconomic perspective" (all economies operate and develop following the same universally valid rules), destroying the basic foundation of development economics: "the notion that developing economies represent a 'special case'" (Neverveen Pierterse, 2010, 7) and taking "for granted that if only a good job could be done in raising the national income of the countries concerned a number of beneficial effects would follow in the social, political, and cultural realms" (Hirschman, 1994, 205). The belief that welfare was best maximised with efficient markets and that freedom lay in handing back responsibility to the individual was enshrined in the comprehensive policy advice given third world nations:

> (a) any regulation of the market is to be avoided, save for crisis and removal of malfunctions or inhibitions to full functioning; (b) any intervention in the market is to be avoided save to remove causes of price distortions, so subsidies should be abolished, tax rates adjusted to encourage enterprise, tariff barriers removed along with other non-tariff barriers or disguised restrictions; (c) any government role in the economy should be avoided, as private enterprise can usually do the job better. . . so labour unions must be curbed; and (e) international trade should be free trade with goods and currency freely traded . . . the removal of controls on the private sector, the privatization of state assets, the liberalization of foreign investment regulations and so on (Preston, 1996, 255 & 259-260).

After the economic upheaval of the 1970s, states with debt and balance of payment problems turned to the IMF and the World Bank only to have the above imposed as a condition of their loans (Payne, 2005, 37).

The alternative to simple trust of the marketplace as a path to development has been the "Welfarist" (Human Development/ United Nations) position which "emphasised the unequal distribution of the fruits of development" (Payne, 2005, 13). This position echoed the refrain of *dependentistas* that globalization and the market resulted in an unequal distribution of power. In fact, while unfettered trade benefitted developed countries greatly, it resulted in the "deceleration of economic growth, of innovation and of investment" for developing countries (Skarstein, 1997, 20). The United Nations (UN) paradigm was expressed in the work of the United Nations Development Program (UNDP), the UN Economic and Social Council and the International Labour Organization (ILO) (Payne, 2005, 11). This approach focused on the individual and utilized a more nuanced approach to interpreting the causes of poverty in different countries (Payne, 2005, 13). There was a growing consensus that "the effects of trade, capital, and labour market liberalization in particular have contributed to rising levels of inequality in many developing countries" and that poverty is, in fact, a result of "power relationships both between and within countries" (Nel, 2008, 13 & 22). The tonic for reducing inequality has actually been found to be somewhat protectionist and redistributive (Nel, 2008, 37; Skarstein, 1997, 20; Hirschman, 1994, 202 & 206; Rudra, 2008, 5). These are themes that had been included in the 1974 call for a New International Economic Order (NIEO) which demanded "trade reforms; monetary reforms; resource transfers; debt relief; and technology transfer" and a shift in power to states in the developing world (Preston, 1996, 237).

The "Basic Needs" approach was launched at the 1976 ILO World Employment Conference and initially began as a counter to capitalism by challenging that economic growth provided people with the necessities of life (Preston, 1996, 245). Despite the World Employment Conference noting that meeting the basic needs criteria depended on achieving a New International Economic Order, the proponents of NIEO feared that a Basic Needs approach would impede industrialization (Singh, 1979, 586). This fear was founded in both the silence of the Basic Needs approach on industrialization as well as the proposed change in aid packages, which would pit poor countries against the very poor countries, destroying the unity they had enjoyed in the past two years of NIEO negotiations (Singh, 1979, 586). It was interpreted that the lack of support for industrialization might be intended to reduce competition as there had been a 50 percent increase in the Less Developed Countries' share of the market in industrial capitalist economies in the 1970-1976 period (Singh, 1979, 587). Subsequently, despite the small scale and local theme, or perhaps because of it, the Basic Needs approach was quickly picked up by the World Bank, co-opted and modified to justify a "paternalistic" interventionist stance which was based around "development projects closely overseen by experts from the first world" (Preston, 1996, 245 & 237). The Basic Needs approach defined problems as internal and demanded "a new internal economic order rather than a new international economic order" (Thomas, 2001, 130). The NIEO had demanded that the locus of decision making shift from the GATT, IMF and the World Bank to the United Nations Conference on Trade and Development *(*UNCTAD*),* a move which the global north opposed (Thomas, 2001, 129).

Neoliberal initiatives effectively quashed the NIEO as well as the UN approach, and co-opted the Basic Needs approach, three attempts from the left to demand a more humane approach to development which would have changed the locus of power. In the midst of this struggle and the emerging supremacy of the neoliberal paradigm, microfinance was born. What is striking is how closely the Basic Needs approach paralleled early conceptions of microfinance. The Basic Needs criteria are roughly in line with Muhammad Yunus' standards for a "Poverty Free Life" which guided this pioneering development of microfinance programs in Bangladesh.

<u>Table 2 Basic Needs vs. Poverty Free Life</u>

Basic Needs Approach	Poverty Free Life
" Basic needs include two elements. First they include certain minimum requirements of a family for private consumption: adequate food, shelter and clothing, as well as certain house-hold equipment and furniture. Second, they include essential services provided by and for the community at large, such as safe drinking water, sanitation, public transport and health. educational and cultural facilities" (Singh, 1979, 585).	(1) a tin-roof house, (2) beds or cots for all members of the family, (3) access to safe drinking water, (4) access to a sanitary latrine, (5) all school-age children attending school, (6) sufficient warm clothing for the winter, (7) mosquito-nets, (8) a home vegetable garden, (9) not having a food shortage even during the most difficult time of a very difficult year, (10) and having sufficient income-earning opportunities for all adult members of the family (Yunus, 1998).
Created by the International Labour Organization for the World Employment Conference in 1976. Adopted by the World Bank.	Criteria created by Muhammad Yunus of Grameen Bank.

Muhammad Yunus established his first microfinance project the same year as the Basic Needs approach was introduced. Both the Basic Needs approach and the Poverty Free Life emphasised small scale and local development. They both fit in nicely with the neoliberal conception of development being a domestic issue, rather than something requiring an international revolution. While this side of microfinance, small scale and local, fits in with a neoliberal conception of development, there is still a healthy debate between those that conceptualise microfinance as part of a broader development plan, advocating for change, and those that view microfinance as merely the provision of financial services and wish to maintain the status quo. This debate within microfinance parallels the debate in the broader development literature between those that advocated for major changes (NIEO, UN Paradigm) and those that wanted to maintain the status quo (Basic Needs Approach under the World Bank).

2.3 Introducing Microfinance to the Development Debate

In 1976 Yunus, while working as an economics professor at the Chittagong University of Bangladesh, initiated an experiment with his fellow colleagues. Believing that access to capital and counselling would enable the poor (those with less than half an acre of land or wealth not exceeding the value of one acre of land) to start enterprises, they provided loans to forty-two landless individuals (Wahid and Hsu, 2000, 160). The Grameen model which became a formal financial institution in 1983, offered loans of less than one hundred dollars as seed money to start businesses, in turn requiring that the recipients begin income generating activities and that the borrowers transitioned to savers. Reciting the Grameen guiding principles, resisting a victim mentality, opposing dowries and sharing group responsibility were some of the broader 'social' requirements (Desta, 2009, 4). Borrowers were also expected to change their lifestyle and infrastructure by repairing their houses, building and using latrines, drinking well water, planting seedlings and growing crops (Desta, 2009, 4).

In these early stages, microfinance was an "impact-driven development program" which provided loans at below-market rates subsided by donations and government support (Lützenkirchen, Weistroffer, and Speyer, 2012, 4-5). The programs were in line with the development approaches of Welfarist or Targeted Lending. A "Welfarist" approach emphasises "direct poverty alleviation" (Woller, Dunford and Woodworth, 1999, 28) whilst "Targeted Lending" adds gender empowerment to the development goals of microfinance (Maclean, 201, 497). They were not simply providing capital; borrowers were expected to undergo a normative and educational shift as a result of their participation in the weekly meetings. Credit to poor people for income generating purposes through "solidarity groups" (Lützenkirchen, Weistroffer, and Speyer, 2012, 3) was central to this approach. The solidarity groups were meant to address both “poverty alleviation and the empowerment of women” (Maclean, 2010, 497). These approaches advocated for change, and were “transformatory” because they used “credit as a means to mobilise women into groups and to stimulate collective action that may contribute to the transformation of gender relations themselves" (Holvoet, 2006, 38). All these approaches advocated for the empowerment of women and the transformation of both the existing system and the role of women in it. Microfinance as a development paradigm challenges the status quo.

Yet, despite its early development oriented beginnings which incorporated education, skills development and empowerment into the programs, by the time microfinance was celebrating its second decade, the financial service advocates had won the battle, instituting their model as best practice (Woller, Dunford and Woodworth 1999, 3, Lützenkirchen, Weistroffer, and Speyer, 2012, 5 and Bateman, 2010, 160). They stripped microfinance delivery of add-ons directed at education and empowerment. This transition has also impacted program delivery in terms of emphasising repayment rates which are central to the financial services conceptualization of microfinance.

2.4 The Evolving Program Architecture of Microfinance: Development vs. Financial Services

The transition to a more commercialized approach came about in the late 1980s, when we see critiques of “failed state interventions in rural credit markets” justifying a more efficient approach which changed the objectives: “the aim became to overcome credit constraints and meet demand efficiently, rather than supplying the poor with cheap loans” (Lützenkirchen, Weistroffer, and Speyer, 2012, 5). The struggle was framed as one between those that advocated for the continued ‘subsidization’ of microfinance (Lützenkirchen, Weistroffer, and Speyer, 2012,

5) and the financial services camp which advocated for higher interest rates to cover costs or even produce profit. In an attempt to rebrand themselves and mitigate the negative perception of making profits on the backs of poor people, those advocating for higher interest rates described themselves as the “sustainability” camp (Rhyne, 1998, 6). They argued that to “assure access by the poor to financial services is to ensure that the private sector finds it profitable to provide such services” (Rhyne, 1998, 7). This shift in focus prompted other changes as well.

The transition from solidarity groups to individual lending occurred alongside the move towards a financial services approach. Individual lending currently comprises 50 percent of lending for low income clients and 90 percent for high income (Lützenkirchen, Weistroffer, and Speyer, 2012, 3). Solidarity groups were central to the development approach but are in direct conflict with a more streamlined ‘sustainable’ approach. Solidarity groups are at the heart of the transformatory potential of microfinance as the women learn together, developing a shared sense of solidarity, and develop social networks outside their households. Yet, within the conceptualization of microfinance as merely financial services, this use of solidarity groups is not practiced or their use has been modified to ensure repayment of loans rather than empowerment.

While there exists a clear divide in the literature between those who conceptualise microfinance as development and microfinance as financial services, in practice there is a great degree of variation on the ground. Tchakoute-Tchuigoua classifies the various providers based on organizational structure and legal status:

> (1) commercial banks and other financial institutions opting for a strategy of ‘Downscaling’ . . . these organizations favour the creation of an internal unit specialized in the area of microfinance, and microcredit becoming a banking product able to reach a niche target of low income clientele. The microfinance is additional

> and secondary for these organizations . . .(2) commercial banks and non-bank financial institutions specialized exclusively in microfinance, (3) cooperatives, and (4) Non-governmental Organizations (NGOs). These organizations can be grouped into three categories according to their legal status: private companies or shareholder firms (SHF) (microfinance banks and other non-banking financial institutions), cooperatives and mutual organizations, and non-profit making organizations (2010, 437).

There is a consensus that there has been an industry shift towards the financial services model (Lützenkirchen, Weistroffer, and Speyer, 2012, Woller, 1999, Schmidt, 2010, Karim, 2011, Bateman, 2010) although there would still exist a great deal of variation on the ground.

The prevalence of the financial service model has raised the concern of the development camp about the type of clients targeted by the financial services approach. The poor, or those are the margin of being poor, are less risky and more profitable than the very poor. “Poor” is defined with varying dollar ranges throughout the literature, but the major benchmarks are those that live on less than $2 a day (poor) and those that live on less than $1 a day (very poor) (Banerjee and Duflo, 2007, 1). However, poverty is not simply defined in monetary terms. The complexity of issues facing the poor include "illiteracy, unsafe drinking water, and lack of access to basic health services . . . (and living) in remote, resource-poor areas, and atrocious slums" (Desta, 2009, 1). As noted by Rhyne, who self-identifies in the ‘sustainability’ or financial services camp, this is a struggle for many from both sides of the debate:

> Buried in the question of whether poverty outreach and sustainability are complementary or not are complex attitudes about the value of assisting various types of people. These attitudes suggest that it is more valuable to assist a poorer person than a less poor person. Those in the poverty camp [microfinance as development] feel strongly that it is important to reach the poorest possible people. Many in the sustainability camp [microfinance as financial services] are more interested in opening access to the full spectrum of the poor who lack access to financial services; although most do include the poorest in that spectrum. (Whereas) . . . those in the poverty camp fear that unless they focus exclusively on the poorest

> and on women, the benefits of microfinance will be hijacked by the slightly better off, particularly men (1998, 7 & 8).

Critiques from the development camp about the lenders targeted by the financial services camp are part of the debate over the goals of microfinance. Many of the development arguments are normative and evoke religious imagery, noting the ‘spiritual foundation,’ ‘spiritual principles’ and ‘soul’ of microfinance (Woller, Dunford and Woodworth 1999, 6). Critics of the financial services model have struggled to engage directly with the terms used by the financial services proponents, creating a gap in both the literature and arguments until quite recently. Neff argues that the literature is, in fact, disproportionally skewed towards analysing success from a lenders perspective (Desta, 2009, 3). Marketing microfinance seems to be more important than resolving these debates. This is echoed by Bateman who argues that microfinance is now run from a predominantly neoliberal perspective which emphasises lenders being self-sustaining and places profits before people (2011). Flynn picks up on this same argument, labeling microfinance a form of “charity washing in the making whereby commercial bankers can use microfinance as a selling point to command price premiums for their products and investments" (2007, 111).

2.5 Contemporary Critiques of Microfinance

While it has been noted that microfinance is “under theorised by feminist political economists and is seemingly beyond feminist critique” (Montes Ireland, 2011, 9), there is a widening range of analysis. Two of the most in-depth and compelling contemporary critiques of microfinance come from Karim (2011) and Bateman (2012). These critiques anchor the debate about microfinance from both a development and feminist perspective. Karim takes an ethnographic approach to the gendered impacts of microfinance while Bateman attacks the development potential of microfinance.

Karim's analysis provides us with a basis for critiquing much of the normatively neoliberal assertions regarding the success of microfinance by questioning the underlying assumptions of the evaluative benchmarks. From the very conception of the "borrower," we see the inherent flaw in a system based on a rational interpretation of the individual. The borrowers are viewed as autonomous and rational; as little more than a client of a business enterprise. This view ignores a more layered description of the mostly female borrowers that have limited financial autonomy and would be required, due to kinship obligations, to transfer their loans to a male relative (Karim, 2011, xvi). Yet, this complexity is not lost on the microfinance institutions, who actively manipulate kin and social relations to ensure their financial and wealth creation goals are met. This manipulation is termed “governmentality,” defined as "the creation of a set of rules, conducts, and procedures that aim to achieve selected goals through the supervision of targeted populations" (Karim, 2011, xvii).

The specific style of governmentality utilised by microfinance providers creates the "economy of shame" (Karim, 2011, xviii). Manipulation of honour and shame, harassment, and the various methods used by NGOs have been well documented by the media, and even academics, in Andhra Pradesh, to name the most infamous example, but had not previously been explained as an instrumentalization of cultural norms under the umbrella of governmentality. Failure to repay loans is seen as a "wrong" committed by the woman against her family or kin group (Karim, 2011, 130). If the MFI workers come to a woman's home to insist on repayment, the wife is the "conduit for the penetration of external laws (the courts, police) into the patriarchal home, in which the husband reigned sovereign" (Karim, 2011, 92) and it is the woman who "dishonors her husband when outsiders come into her house and verbally abuse her" (Karim, 2011, 86). In cases where MFIs have used the police to enforce repayment, such shame is more severe, and it opens the women to potential abuse as "the Bangladesh police are known for their horrific crimes against women in custody" (Karim, 2011, 92). Shaming, through the police or MFI workers, often results in marital abandonment and the woman being forced to return to her parent's home. In these cases the woman has no legal recourse as the NGOs providing legal services do not want to enter into a conflict with the MFIs (Karim, 2011, 93). Not only has the microfinance industry instrumentalized shame, they are actively pursuing poorer clients who are easier to manipulate. MFIs acknowledge that such practices will not work with more prosperous clients and refuse to lend to them (Karim, 2011, 102). Through a variety of shaming practices, MFIs ensure that their female clients modify their behaviour to achieve MFI goals and objectives.

Karim also explores the extent to which the NGO industry has evolved to supplant the social safety net traditionally provided by governments and in many ways has become a "shadow state" (2011, xviii). Outsourcing services formerly performed by the government to the market is central to the broader neoliberal development philosophy. Microfinance penetration compared to that of the government is so extensive that MFI and NGO workers are often referred to as *sarkar* (government) (Karim, 2011, 78). For example, NGOs began their role in Bangladesh as providers of education, health care and sanitation, family planning and credit, part of the "integrated rural development model" (Karim, 2011, 15). This broad outreach was further entrenched by the support of the government in the 1970s and 1980s who sought to split the left-wing opposition by providing monies to NGOs (Karim, 2011, 16) and the cyclone of 1987 in which foreign donors refused to deal directly with the government and provided relief via the existing NGO network which was better equipped to provide relief and was seen as less corrupt (Karim, 2011, 19). However, NGOs are donor dependent and by the late 1980s this drove a move away from the "conscientization" model which involved "organizing and teaching the poor people to fight against the rural elites who controlled land and water rights" towards a microcredit model (Karim, 2011, 15 & 17). An example of this transformation is the organization Proshika. Proshika had been heavily involved in conscientization, but by the late 2000s, had cut social programs for education, literacy and culture due to lack of donor support (Karim, 2011, 16 & 65). For other organizations such as Grameen, and BRAC, meetings (formerly education opportunities ensuring social cohesion), education and social programs had fallen by the wayside (Karim, 2011, 75).

Karim also addresses the one-sidedness of the discourse around microfinance. Bateman, Banerjee and Duflo all comment on the quality of internally-produced assessments and the extent to which alternative research findings are suppressed but Karim takes this a step further by interpreting the cultural production of knowledge (Karim, 2011, xix). Banerjee and Duflo released the results of a study raising the ire of the big MFIs. Two villages were monitored, one as a control and one which Spandana, one of the larger MF NGOs, entered and provided microfinance. The findings were conservatively positive, in a 15-month period, the fraction of families starting a new business rose from 5 percent for the control group to 7 percent for the area with access to Spandana funding. Positive findings, but in contradiction with the panacea microfinance is touted as being? The outcomes were more in line with the researchers' assertion that microfinance is one potential development tool in what needs to be a diverse arsenal (Banerjee and Duflo, 2011, 171-172). This study prompted the "'big six" (Unitus, ACCION International, Foundation for International Community Assistance [FINCA], Grameen Foundation, Opportunity International, and Women's World Banking), the largest MFIs worldwide, to discuss how the findings of further studies would be controlled and countered in the media (Banerjee and Duflo, 2011, 172). This ability of the leading NGOs to silence or manage critiques is a recurring theme in Karim's experiences in the industry in Bangladesh (2011, 182). Not only at the higher levels of power do we see a silencing of or shying away from criticism of the industry. The exorbitant salaries paid to professors to be MFI "consultants" creates a conflict of interest. Ranging from$1000USD for a few project proposals to $15,000 USD for a one year project compared to the salaries of a high ranking government official ($250 USD a month) or a university professor ($3000 USD a year) (1999 figures), these projects make the difference between scraping by and being moderately comfortable (Karim, 2011, 175). Also, patron-client relationships exist between the field researchers and their supervisors which further exacerbates the ability of the research system to produce meaningful critiques (Karim, 2011, 177). Entrenched researchers have even more to lose by having their research called into question and often have biases towards both qualitative research and female researchers (Karim, 2011, 180). Karim effectively illustrates the barriers to entry for heterodox critiques of microfinance.

Her analysis of the economy of shame is particularly effective as it illustrates how MFIs have been able to achieve such high repayment rates, which calls into question repayment rates as an effective means for evaluating the success of microfinance programs. Grameen Bank, for example, has reported 98 percent repayment rates (Bateman, 2010, 11). Instrumentalizing cultural norms to further exploit the disadvantaged position of women cannot be seen as a success in development terms. Karim uses case study research, similar to the structure used by Banerjee and Duflo, with similar findings regarding the limited success stories. While this research is well structured and does provide us with a more comprehensive understanding of the impact of microfinance, the weakness in her analysis is its inability to speak to proponents of microfinance on their own terms. Case studies, as Karim outlined in her research, do not appeal to the predominantly quantitative existing research who would consider qualitative research "wishy-washy" (Karim, 2011, 180). This limits the extent to which there is a dialogue between researchers.

Bateman, however, is able to speak the language of the financial services providers and attacks the development potential of microfinance. Rather than seeing microfinance as a potential tool in the development arsenal, Bateman asserts that it diverts resources away from more effective methods which do not harm those they claim to help. "Put simply, microfinance does not work" (Bateman, 2010, 1). He advances that it is not only the quantity of resources spent but how they are spent that determines the extent to which people are lifted out of poverty (2010, 3). Self-sufficiency, central to neoliberal thought and the financial services provision of microfinance is flawed. The ascent of neoliberalism in the 1970s created a culture in which "government financial support should neither be sought nor offered . . .{as} one of the core imperatives of neoliberalism is a firm belief in the financial self-sustainability of *all* institutions that operate in the economy and society" (Bateman, 2010, 13)(emphasis in original). He demonstrates the flaw in this paradigm with numerous case studies of effective development strategies that involved investment at levels that would make most neoliberals uncomfortable. In fact, “the most important poverty-reducing advances . . . have arisen because of some form of state intervention and collective provision” (Bateman, 2010, 158). He cites Japan’s post World War II recovery, the Basque community development bank model, the Northern Italy local-regional financial model, Taiwan, South Korea, China, India’s "Kerala model", Venezuela’s "popular economy experiment" and Vietnam as examples of interventionist, state-sponsored support of small-medium enterprises that created development more effectively than microfinance has done in the thirty years it has been practiced (Bateman, 2010, 170-196). Bateman argues that the microbusinesses set up by microfinance borrowers do not provide them with an opportunity to grow the economy, merely to eke out and existence and allow microfinance to continue. The “simple and unsophisticated microenterprises can service the terms and maturities demanded by most MFIs” (Bateman, 2010, 94).

Bateman illustrates not only the flaws in economic policies but the flawed understanding of economic principals underlying the failure of microfinance (2010, 6). Yet, the influence of international organizations such as the World Bank, on the domestic policies of the countries practicing microfinance, ensure that such practices continue (Bateman, 2010, 17). Bateman takes it a step further arguing that microfinance or self-employment was promoted by the UK and US governments as a way of undermining organized labour (2010, 33). Bateman suggests that in the case of microfinance, this is gender-based: the "flexibilization" of the labour force which disproportionately affects women and drives down the cost of labour and benefits for employers in line with the neoliberal agenda (2010, 43). This amounts to furthering a situation in which women are a source of "non-contractable labour," a euphemism for "unpaid female labour" (Bateman, 2010, 47). He posits that microfinance is used to discipline women, by using practices Karim terms the 'economy of shame,' to make women more "market-friendly" (Bateman, 2010, 47). Despite the evidence against the effectiveness of microfinance to advance development, countries are still being subjected to international pressure to continue such policies. This may be due, in part, to the lack of an internal critique and the market demand (now that microfinance is profit and shareholder driven) for "favourable research outputs" (Bateman, 2010, 35). If we know that microfinance is not creating development and in fact hindering it, then the arguments advanced by the financial services camp are “an elaborate rationale to allow people to act on unfettered greed while still invoking an altruistic motive?" (Klein quoted in Bateman, 2010, 113).

The strength of Bateman's analysis lies in his ability to critique microfinance as an economic tool advancing development. While he is supremely critical of neoliberalism, noting that "microfinance has been supported and protected on account of its supreme serviceability to the international development community's preferred societal model of neoliberal capitalism," he is able to back up this assessment with thorough case studies of alternative success stories. (Bateman, 2010, 210). Karim provides an opportunity to see how microfinance affects the lives of the women and communities in which it is practiced. This balances Bateman's macro approach which asserts that microfinance is not an effective development policy. The two critiques strike at the heart of what microfinance was intended to be, a development tool that empowered women.

2.6 Conclusion

Bateman demonstrates the flaws in the neoliberal philosophy underlying microfinance. Karim demonstrates what microfinance looks like in practice. They both demonstrate the extent to which the financial systems approach thoroughly embodies a capitalist oriented development paradigm which places profit before development. Karim provides us with the language to discuss the abuses women suffer at the hands of microfinance providers while Bateman provides us with the broader socioeconomic context in which this abuse occurs. The up-close version of microfinance involves shaming and the manipulation of existing power structures, whereas from a greater distance we see that it cripples an economy and ensures the continued practice of microfinance under the justification of development. The evolution of microfinance paralleled the rise and entrenchment of the neoliberal development paradigm. This entrenchment of a paradigm that is derived from advancing capitalism has impacted the manner in which microfinance is evaluated, thereby crippling its effectiveness as a development tool. The increasing emphasis on the financial bottom line has resulted in education or Targeted Lending style programs being cut despite a consensus that the industry and the women perform better with them in place. The shift from conceptualizing microfinance as a development model that is inherently revolutionary to microfinance as financial services which has a vested interest in maintaining the status quo has resulted in the retrenchment and instrumentalization of gender roles. It is in the frontline service delivery that this conceptualization of microfinance as financial services manifests itself most violently. The high interest rates and methods to ensure repayment have caused microfinance to stray so far from its original goals that it has become a threat to women's emancipation, not a means to reaching it. The dominance of the financial services model is clearly seen in the current program evaluations.

Chapter 3 Microfinance Program Evaluation

3.1 Introduction

Within the microfinance industry there are two distinct camps: those that conceptualise microfinance as a development model and those that conceptualise microfinance as a business model. The program architecture and evaluation is quite different for these two camps. This chapter argues that the manner in which programs are evaluated provides insight into the goals of the programs as well as playing a key role, in turn, in shaping program architecture. Programs focused on maintaining profit margins will structure their program delivery to ensure profits stay high, for example. The differing evaluation criteria of development and financial services programs have resulted in two very different program architectures and outcomes.

As a development model, microfinance seeks to transform lives. The least gendered approach emphasises “direct poverty alleviation” (Woller, Dunford and Woodworth, 1999, 1). Beyond poverty alleviation, the gender relations development model expects development initiatives to challenge and change existing power relations. Gender relations addresses not only the power structure of those receiving aid, but also uncovers "its operations within the purportedly neutral institutions within which development policies are made and implemented” (Kabeer, 1994, xii). Within a development model the use of "group formation as a strategy to combine microfinance's dual aims of *poverty alleviation and the empowerment of women*" is quite popular (italics added) (Maclean, 2010, 497). Such programs are meant to be “transformatory” because they use "credit as a means to mobilise women into groups and to stimulate collective action that may contribute to the transformation of gender relations themselves" (Holvoet, 2006, 38). In development oriented microfinance we see that the paradigm revolves around empowerment and transformation. If microfinance is evaluated from a development perspective, first and foremost, the extent to which it reduces or alleviates poverty should be determined. Borrowers should not stay in the microfinance system indefinitely; they should be transitioning from subsistence behaviours to entrepreneurial success. In terms of gender empowerment, a change in behaviours and a change in acceptable behaviours should be present. From a macro perspective the microfinance providers should continue to target those that need help the most with the goal of those individuals, and the families they are connected to, moving out of poverty. Development oriented microfinance institutions should be geared towards making themselves obsolete by ensuring that their borrowers achieve a quality of life and a level of empowerment that ensures they don't need to seek that kind of support. The evaluative benchmarks for development oriented microfinance would focus on the transformation of lives.

A business oriented model, however, is centred around maintaining the status quo in terms of gender and empowerment. Those within the microfinance as business model camp advocate for "sustainability" as donor contributions exhaust themselves and they only way to "assure access by the poor to financial services is to ensure that the private sector finds it profitable to provide such services" (Rhyne, 1998, 6 &7). When evaluating from a financial services perspective, "success is measured in institutional terms such as breadth of outreach and repayment rate" and microfinance institutions should be financially sustainable (savings and interest rates should cover the cost of loans and administration without need for subsidies) (Maclean, 2010, 497). The financial services approach focuses on building the microfinance institutions through an emphasis on "financial self-sufficiency and institutional scale" (Woller, 1999, 1).

From a more critical perspective, "rather than supplying the poor with cheap loans. . . MFIs were expected to be able to charge market-based, cost covering interest rates" (Lützenkirchen, Weistroffer, and Speyer, 2012, 5). From a gendered perspective, the financial services approach "applies group intermediation and existing patterns of gendered behaviour to enhance financial sustainability" (Holvoet, 2006, 38). Evaluations from a financial services perspective focus on the repayment rates and profitability of microfinance institutions. The very concept of sustainability demands the continuation of the institutions and client retention to ensure efficiency. Entrepreneurship should matter but ensuring clients are successful entrepreneurs means that they would not continue as clients. Consumption is also indicative of the client retention. From a financial services perspective, ensuring the continuation of the institutions, and the associated profits, through client retention, changes the thrust of the program architecture and evaluation.

Microfinance had transitioned from an approach geared towards development to the financial services approach by the late 1980s (Bateman, 2010, 160). This was in tandem with a broader shift in the broader development community. It is notable the extent to which the delivery and evaluation of microfinance has shifted to such as extent that it isn’t really about development anymore. The origins of this shift and the transition to financial services microfinance began in the early 1970s before Muhammad Yunus had begun Grameen Bank.

Up until 1973, when Robert McNamara, then World Bank President, called for an overhaul of the system, development had been categorised by large scale capital transfers distributed by state-owned development banks (Schmidt, 2010, 105-106). Subsequently, development was geared towards by-passing states and paternalistically targeting those who were deemed in need. The distribution of funds in the period immediately following this shift was done by small enterprise banks, non-profits, and organizations run by entrepreneurs. Yet each of these encountered challenges from a neoliberal perspective: loans did not reach target demographics, becoming bottomless pits for development funds, and costs were unsustainably high (Schmidt, 2010, 106). A study commissioned by the Inter-American Development Bank to explore solutions to the failures of channeling monies through small enterprise banks, non-profits, and organizations run by entrepreneurs, recommended that costs for lending institutions not exceed 20 percent of portfolios and "this was the beginning of modern microfinance" (Schmidt, 2010, 109). This critique of existing program architecture was leveled directly at Grameen Bank, which "was nowhere near covering its costs, and also did not seem to have made any great effort to do so" (Schmidt, 2010, 102). It was also a harbinger of the shift in emphasis from the development model approach practiced by the Grameen Bank towards a financial services approach being practiced by the broader, and soon to expand, microfinance industry as a whole. This shift towards the neoliberal and profit-oriented financial services approach significantly impacted the manner in which microfinance programs were administered and evaluated.

The Grameen Bank microfinance model had been in line with a development approach. Program evaluation from a "microfinance as development" perspective should focus on the quality of life of the recipients. A "Poverty Free Life" was the criteria developed by Muhammad Yunus when he was beginning the Grameen Bank. A Poverty Free Life, as defined by Yunus, is indicated by the following ten characteristics:

> (1) a tin-roof house, (2) beds or cots for all members of the family, (3) access to safe drinking water, (4) access to a sanitary latrine, (5) all school-age children attending school, (6) sufficient warm clothing for the winter, (7) mosquito-nets, (8) a home vegetable garden, (9) not having a food shortage even during the most difficult time of a very difficult year, (10) and having

sufficient income-earning opportunities for all adult members of the family (1998).

A 2003 modification of this list was shortened to include roofing, safe water, a mattress, warm clothing, and enrolling school-aged children in schools (Desta, 2009, 4). Reciting the Grameen guiding principles, resisting a victim mentality, opposing dowries and sharing group responsibility were some of the requirements of the original program architecture (Desta, 2009, 4). Borrowers were also expected to change their lifestyle and infrastructure by repairing their houses, building and using latrines, drinking well water, planting seedlings and growing crops (Desta, 2009, 4). Some of the goals microfinance was expected to achieve are:

-employment opportunities,

-increased entrepreneurial spirit,

-increased productivity,

-economic security,

-improved nutritional and health status,

-improved housing conditions,

-increased asset possession and wealth creation,

-social empowerment,

-awareness and educational improvements,

-improved self-esteem,

-increased sense of dignity,

-organizational and management skills,

-mobilization of collective strengths and

-increased independence and greater financial solvency (Afrin, Islam, and Ahmed, 2010, 10).

Part of an evaluation of the quality of life of the recipients would explore gender relations. The extent to which gender relations have transformed over the course of the microfinance provision should be measured. Holvoet's (2006) work is an example of how this can be done. It *is* possible to examine the level of female empowerment- not the "empowerment lite" of microfinance as financial service perspective which accommodates women within the existing system rather than empowering them to challenge or transform the existing social order (Cornwall, Gideon and Wilson, 2008, 4). A proper evaluation would examine the extent to which poverty has been alleviated or eradicated in the regions that have been practicing microfinance for decades. The current incarnation of microfinance does not evaluate its programs along development lines. The shift from a predominantly development paradigm, centred around "lending to the poor for income-generating purposes" (Lützenkirchen, Weistroffer, and Speyer, 2012, 3) towards the more commercial, financial services approach during the 1990s fundamentally altered the way microfinance was practiced and evaluated. For advocates of the financial services microfinance model, "outreach and repayment rate" (Maclean, 2010, 497) trump more development oriented criteria for evaluation. Within the financial services framework adopted in the 1990s, "the aim became to overcome credit constraints and meet demand efficiently, rather than supplying the poor with cheap loans" (Lützenkirchen, Weistroffer, and Speyer, 2012, 5). The financial services approach drew microfinance away from its emphasis on empowerment and poverty alleviation towards a profit-orientation that fundamentally changed program delivery and the manner in which microfinance was evaluated.

As a result of this shift in paradigms, there was a change in program evaluation. Microfinance had been advocated as a development strategy that empowers women. Yet, the extent to which it advances development or empowerment often does not factor into program evaluation as a result of the increasing importance of commercial or neoliberal priorities. What follows is a review of the current criteria for evaluating the programs. Through an examination of the program evaluation criteria we are able to see the chasm between what programs geared towards poverty alleviation and empowerment look like versus the current profit orientation.

3.2 Microfinance Evaluation under the Financial Services Approach

3.2.1 Repayment Rates and Gender

Estimates of the percentage of MFI borrowers that are female globally range from seventy-five (D'Espallier and Guérin, 2011, 758) to eighty-five, with MFIs in many countries lending exclusively to women (Hofmann and Marius-Gnanou, 2007, 8-9). Microfinance is very much a female-oriented industry. This was not always the case. In 1979, only eleven thousand out of twenty-eight thousand of Grameen borrowers were women. Karim argues that part of the shift to female-centred lending was the result of gender becoming tied to aid programs under the U.S. Percy Amendment and the United Nations Decade for Women (2011, 71). By 1999, Grameen Bank had 2,352,867 borrowers, 95 percent of whom were women (Wahid and Hsu, 2010, 164). Bateman, echoing many of his peers, attributes the shift to the realization that women were more effective at repayment, a sentiment also voiced by Yunus himself (2010, 9-10). Whether through international pressure or a local assessment of differing repayment rates based on gender, there was a shift in lending practices towards women, which the literature retroactively came to support.

The repayment rate is, without exception, a financial services criterion. It measures the extent to which the industry is 'sustainable' or profitable. One of the rallying cries which drew private banks into the microfinance industry was the exceptional repayment rates that were reported

(Flynn, 2007, 118). The ninety-eight percent repayment rates of the Grameen bank (Bateman, 2011, 11) were seductive, leading to a huge influx of equity and debt investment with some institutions doubling their size each year (Kline and Sadhu, 2012, 1). By 2006 the number of microfinance clients had surged from 7.6 million in 1997 to over one hundred million (Karim, 2011, xiv, Ahlin, Lin, and Maio, 2011, 105). With the average return on capital investment in excess of twenty percent (Flynn, 2007, 118) microfinance is an attractive investment opportunity. Combined with a global average interest rate of 37 percent, with many MFIs charging 100 to 125 percent interest (MacFarquhar, 2010), there is a lot of money to be made. It also offers the potential to unlock "dead capital" or monies in the informal or extralegal economy (De Soto, 2001, 14).

A study of three hundred and fifty microfinance institutions in seventy countries explored the relationship between gender and repayment (D'Espallier, Guérin, and Mersland, 2010). The findings were quite interesting. There are a number of arguments as to why women would be a safer “bet” for lenders. The business activities of women, sometimes based on traditional gender roles, would be less risky and allow for quicker turnover (selling goods as opposed to something like farming which requires a longer term investment, seasonal repayment and higher risk structure) (D'Espallier, Guérin, and Mersland, 2010, 759). The lack of credit opportunities for women is seen as an incentive to not squander the chance they have by poor repayment rates (D'Espallier, Guérin, and Mersland, 2010, 759). Women are also seen as being more sensitive to peer pressure and intervention by loan officers (D'Espallier, Guérin, and Mersland, 2010, 759). Despite these beliefs there is evidence to suggest that women don't necessarily control the money they borrow and it is utilized by male relatives who have been squeezed out by the gender bias in microfinance (D'Espallier, Guérin, and Mersland, 2010, 759). However, *high repayment rates* *do not necessarily mean that the borrowers have experienced business success*, as they often borrow from family, friends or money lenders to repay the debts (Bateman, 2011, 10).

A study of whether and how female borrowers impacted portfolios at risk, write-offs, and provision expenses supported the belief that women are, in fact, a safer bet in terms of repayment but that there were also other factors at play. NGOs, which traditionally develop gender specific and “female friendly policies,” fared better than their private sector MFI counterparts (D'Espallier, Guérin, and Mersland, 2010, 768). Regulated MFI also did better than unregulated MFI; but largely due to "coercive enforcement methods . . . social pressure, verbal hostility, (and) harassment" (D'Espallier, Guérin, and Mersland, 2010, 768). This supports the claims of critical scholars that increased regulation and commercialization have impacted credit officers, leading to behaviour that was classified as ranging from "stricter enforcement methods" to "'abusive collection methods'" (D'Espallier, Guérin, and Mersland, 2010, 768). Rural areas also performed better but this may be due to enforcement techniques, such as social pressure, being more effective in smaller and more tightly knit communities (D'Espallier, Guérin, and Mersland, 2010, 764). The report also called for further study of the repayment enforcement practices and the manner in which women were targeted to ensure microfinance does not result in "debt traps" and the "feminization of debt" (D'Espallier, Guérin, and Mersland, 2010, 770). It found that increased regulation can lead to a reduction in reaching female clients if it conflicts with profit (Cull, Demirgüç-Kunt, and Morduch, 2009, 10). Thus, we can see that while women are safer bets from a financial services perspective, their specific vulnerabilities can be exploited in the pursuit of profit. While repayment rates indicate the sustainability of the microfinance provider, they are not indicative of a positive development impact.

A microfinance provider which more closely falls into the "microfinance as development" model would be the Tanzanian Cooperatives studied in this project. These cooperative societies are locally owned and operated. Their focus is poverty alleviation through sustainable development with no specific emphasis on gender. The Tanzanian Cooperatives are quite distinct in their repayment structure and often focus group participants compared the methods for ensuring repayment favourably with the private MFIs operating in the area, noting the confiscation of household goods as one strategy used by more aggressive institutions (Ryan, Focus Group Discussions, 2013). The Tanzanian Cooperatives require savings and a three-month waiting period before a loan can be taken out, as well as the purchase of shares (Ryan, Field Work Observation, 2013). The Tanzanian Cooperatives maintain low interest rates of 3-5 percent (Ryan, Field Work Observation, 2013), compared to a global microfinance industry average of 37 percent- with many charging up to a 100 percent annual rate, or even 125 percent (MacFarquhar, 2010). Despite the more humane practice of renegotiating payment schedules, some of the members still noted that an obstacle to expanding the Tanzanian Cooperatives was fear of the shame of defaulting on a loan (Ryan, Focus Group Discussions, 2013).

Whilst the Tanzanian Cooperatives do not capitalise on shame in the manner of many MFI, it is notable that shame is still a salient issue and ripe for manipulation by less scrupulous microfinance providers. Also, in terms of control over the loan, responses ranged from an egalitarian joint decision making system whereby husband and wife work as a team to much less empowered situations (Ryan, Focus Group Discussions, 2013). Some respondents noted that their husbands left with the money and a new wife, or that the money was stolen by thugs hired by their husbands, or that the husband would cease to contribute to household expenses if he saw that his wife was making money (Ryan, Focus Group Discussions, 2013). The wife would still then be responsible for the loan repayment in instances where the money was taken (Ryan, Focus Group Discussions, 2013). There was a wide variety of responses as to how money was handled, varying from village to village. The Tanzanian Cooperatives seemed to operate within the structure of pre-existing gender norms and practices (Ryan, Field Work Observation, 2013). If women were empowered, access to capital and training and support furthered that empowerment. In instances where women were not as empowered, the Tanzanian Cooperatives did not challenge the pre-existing structure to such an extent that the women in the focus groups explicitly asked for training that would address such issues (Ryan, Focus Group Discussions, 2013).

Even though the structure of the Tanzanian Cooperatives addresses most of the concerns of the development camp in terms of repayment schedules, interest rates, training and support, there are still gaps that need to be filled with programs targeted directly at providing women with the support they are asking for. Program evaluation centred around repayment rates obscures the development impact of microfinance by ignoring the power structures experienced by the loan recipients. This lack of concern for such impacts is a result of the microfinance as financial services model criteria that dominate how modern MFI are evaluated.

3.2.2 Microfinance and the Economy: Where is Microfinance Profitable?

A profit motive lends itself to exploring under which circumstances microfinance would be most profitable rather than under which circumstances it would be most beneficial. Ahlin, Lin, and Maio assess the manner in which microfinance responds to and, in some cases, competes with, other economic factors (2011). Their findings add fuel to the argument that microfinance is just one weapon in the development armory. A study of three hundred and seventy three MFI explores whether microfinance is "rivalrous or complementary with a development path based on industrialization, manufacturing, and foreign trade and investment" (Ahlin, Lin, and Maio, 2011, 106). They find that MFIs lower costs and lower default rates in economies experiencing better economic growth with a strong agriculture sector and a large rural population, while loans grow faster when manufacturing, foreign direct investment, and work force participation are strong (Ahlin, Lin, and Maio, 2011, 106). However, work force participation, manufacturing share, and industry share all reduce the growth of new borrowers (Ahlin, Lin, and Maio, 2011, 106). When the opportunity for wage based employment is available, the number of borrowers is reduced, which suggests microfinance is an alternative to wage labour opportunities (Ahlin, Lin, and Maio, 2011, 106). Borrowers tend to do better when the economy is strong but there are fewer of them. For example the "telephone ladies" of Grameen Bank fame[1] were forecasted to make $750-1,200 per year with an investment of $420 for a phone, when the program began in 1997 (Bateman, 2010, 69). However, over the course of the program, which initially aimed for 50,000 telephone ladies, market saturation occurred so that by 2005 there were 280,000 telephone ladies making about $70 yearly (Bateman, 2010, 69). While the telephone ladies were making pennies a day, Polli Phone, a subsidiary of Grameen phone (co-owned by Telenor a Norwegian telecom firm at 62 percent and Grameen Telecom at 38 percent) made 19 percent of its 2006 profits from the telephone ladies (Karim, 2011, 70). Too many microenterprises flood the market, reducing profits of individual businesses.

Strong economic growth also “creates demand and better growth opportunities for micro-funded micro-enterprises” (Ahlin, Lin, and Maio, 2011, 106). So while a strong wage-labour base

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[1] This was a "one of Muhammad Yunus's own flagship anti-poverty programs" which received a lot of media attention for the money it made Telnor, the Norwegian telecom company that partnered with Grameen Phone (Bateman, 2010, 68).

substitutes for “microfinance on the extensive growth margin - limiting the client base – but complements it on the intensive growth margin – improving clients’ growth prospects” (Ahlin, Lin, and Maio, 2011, 112). This is in conflict with arguments from the financial services camp about the importance of the breadth of MFI outreach justifying current interest rates. A smaller microfinance sector within a broader economic growth strategy would lead to greater success for individual borrowers, rather than the current system in which breadth of outreach leads to greater profits for MFIs and not much development. Societal and economic inequality translate into “much higher default and operating costs, higher interest rates, and lower MFI sustainability” (Ahlin, Lin, and Maio, 2011, 106). Overall, microfinance does well when the economy is doing well and is socially and economically equal, but there is little indication that MFIs have “substantial macroeconomic impacts” (Ahlin, Lin, and Maio, 2011, 118).

Another structural consideration is the "'market failure/government failure'" model which predicts an inverse relationship between government social spending and the third sector: the existence of the third sector can be attributed to the demand for “public goods’ that are left unsatisfied in a market economy” (Salamon and Anheier, 1997, 5 & 21). Karim’s theory in which the NGO industry has become a "shadow state" is in line with the market failure/government failure theory (2011, xviii). Ahlin, Lin and Miao’s findings tend to support a less than healthy relationship between government and microfinance. They have shown that “microfinance is a substitute for, or even benefits from, weak institutions” whereas MFIs “don’t always do better, and sometimes seem to do substantially worse, where institutions are more advanced” (Ahlin, Lin and Miao, 2011, 106 & 119). In this we can see that microfinance is structured in such a way that it attracts clients when there are no other institutional supports available. The counter to this is "'voluntary failure or partnership'" theory which predicts a positive relationship between the two based on the idea that they work together and supplement each other (Salamon and Anheier, 1997, 5). That social spending would be reduced, government intervention reduced and more human needs ‘met’ by the ‘market’ is in line with neoliberal philosophy. "If women’s income from private sources such as microfinance increases, public services can be reduced" (Bee, 2011, 28). That microfinance is being used to smooth consumption, rather than state-based social welfare programs or development, is also in line with a neoliberal reduction of state intervention. The clientele of microfinance institutions also impacts profitability: "microfinance programs that target the poorest borrowers generate revenues sufficient to cover just 70 percent of their full cost" (Murduch, 1999, 230).While we can see that many of the instances in which microfinance is most profitable are in economies in which industry is strong and supported, it seems that this would conflict with the current overall neoliberal theme of development and structural adjustment policies. Evaluating microfinance on profit levels is a central concern of the financial services camp. The disincentive to lend to the poorest of borrowers due to the inability to achieve sufficient profit margins is strongly linked to the industry emphasis on profits.

3.2.3 Mission Drift vs. Efficiency

Mission drift is an oft cited concern of the development camp whilst efficiency is the counter critique from the financial services camp. Mission drift occurs when an MFI moves to a wealthier target demographic foregoing outreach to rural communities, women and the poorest segments (Mersland and Øystein Strøm, 2009, 28-29). Many studies seek to address the concern that profit motive has weakened or compromised the original intent of microfinance. For an industry with over $60 billion in assets (MacFarquhar, 2010), this is a public relations concern.

Efficiency is based around the notion that a neoliberal business model for microfinance would provide greater breadth of outreach: “by retaining profits and attracting commercial funding, MFIs would then be able to grow faster” (Lützenkirchen, Weistroffer, and Speyer, 2012, 5).

Studies have shown that "MFIs can stay true to their mission even when they aggressively pursue financial goals" based on the belief that profit motive causes them to be more efficient (Mersland and Øystein Strøm, 2009, 28). A similar argument is that MFI, modeled along neoliberal criteria, perform better than NGOs in terms of, not only portfolio quality, but also geographical outreach (Tchakoute-Tchuigoua, 2010, 436). NGOs, which would be classified as development-oriented microfinance providers, are characterized as being less efficient due to a lack of ownership and the absence of profit motive, meaning they "pay very little attention to the viability and sustainability of their organization" (Tchakoute-Tchuigoua, 2010, 437). However, they do have access to "soft" information relating to their integration within the local communities which gives them cultural, geographical and social insights unavailable to larger, commercial enterprises (Tchakoute-Tchuigoua, 2010, 439). This access to "social capital" (Woolcock and Narayan, 2000, 225) has enabled NGOs to, in some respects, tailor their programs more effectively to their clients. In terms of performance, private MFIs were more sustainable and had better portfolios than cooperatives or NGOs, whereas cooperatives were found to be the most efficient due to the absence of payroll (Tchakoute-Tchuigoua, 2010, 439 & 441).

With respect to mission drift, Mersland and Øystein Strøm's study uses average loan size and rural outreach as a proxy, as the very poor would have smaller loan sizes than the poor and live in more isolated areas (2009, 29). The findings support that higher profits are made with larger loan sizes and this could potentially lead to a crowding out effect for the very poor (Mersland

and Øystein Strøm, 2009, 33). Mission drift seems to be a greater risk for less efficient MFI and while, overall the authors find no evidence of industry wide mission drift, they do caution that incorporating entry level loan size might paint a more comprehensive picture (Mersland and Øystein Strøm, 2009, 35).

Other studies counter this showing that a for-profit orientation does lead to higher interest rates for borrowers (Roberts, 2012, 1). Roberts finds that while larger MFIs do enjoy economies of scale, they show a slight aversion to rural clients and a tendency towards female borrowers but offer comparable loan sizes to their less profit oriented peers (2012, 8). Roberts also notes that higher interest rates and greater profit orientation do not correlate with greater efficiency, and in fact, lead firms "away from the efficiency frontier," and that the industry needs to work towards more sustainable practices (2012, 9).

The crux of this debate seems to be whether or not microfinance needs to be sustainable or if it is acceptable to incorporate grants and subsidies into the operating structure of the organization. Is a profit seeking motive incompatible with poverty alleviation? Does a profit seeking motive improve efficiency? Many of these studies compare institutions of different structures and motivations, whereas among Tanzanian Cooperatives examined in this project, all of which have similar structures and motivations, there is a great deal of difference between sustainability, strength, size and longevity. This suggests that there are outside factors at play such as the economic strength and infrastructure, entrepreneurship and existing businesses, educational background and culture of the region or area in which they operate (Ryan, Field Work Observation, 2013). A more thorough investigation into what makes a Tanzanian Cooperative successful would perhaps answer many of the questions raised by the development versus financial services debate in microfinance.

3.2.4 Entrepreneurship

The premise on which microfinance is based was that with access to capital, entrepreneurship was inevitable. Wahid and Hsu describe Grameen Bank as an experiment designed to “test the hypothesis that the rural poor could generate productive self-employment for themselves if they were provided with appropriate amounts of credit along with proper counselling” (2010, 160). Does microfinance truly create the small business success that it set out to?

In terms of the development of entrepreneurship, Afrin, Islam and Ahmed examined a multitude of variables in Bangladesh. Their findings confirm concerns regarding baseline education, specifically literacy (2010, 31). For women with greater financial management skills and higher group integration, they had a higher chance of being entrepreneurial (Afrin, Islam and Ahmed, 2010, 29). A woman's family background in terms of the entrepreneurial characteristics of her parents, and personal characteristics such as independence and creativity were also positively correlated with entrepreneurial tendencies (Afrin, Islam and Ahmed, 2010, 28). Outside characteristics such as these keep recurring in the literature in terms of whether microfinance, in and of itself, reduces poverty or encourages entrepreneurship.

In Tanzania, many of the women discussed the importance of support and training for sustainable livelihoods (Ryan, Focus Group Discussions, 2013). While the retention rate varies for different programs in different regions (Ryan, Field Work Observation, 2013), outside support in terms of ongoing training was mentioned as a reason for the success of many businesses. Institutional transfer of knowledge is something that many of the Tanzanian Cooperative members struggle with as lifestyle expectations are different between generations and was brought up in many of the focus group discussions and interviews (Ryan, 2013). Across the board demand for education and assistance in creating new livelihoods was emphatic (Ryan, Field Work Observation and Focus Group Discussion, 2013). Access to credit "does not an entrepreneur make," though for the small percentage of the population that are entrepreneurial, it may offer opportunities. Training and support in livelihoods and financial management, as well as basic literacy, are factors that do increase the extent to which someone has a chance at entrepreneurial success and if the industry is truly committed to development, programs aimed at addressing these factors would feature more prevalently.

3.2.5 Consumption

Consumption is a deceptive criterion for evaluating the success of microfinance. Obviously, it is an indicator of the extent to which recipients can provide for themselves and their families. It is an indicator of the extent to which recipients participate in the capitalist economy and are being good neoliberal subjects. It also is a proxy for failed graduation from MFI lending. There does seem to be some positive correlation between participation in microfinance and increased consumption. Focus group discussions in Tanzania supported the idea that access to microfinance increased or improved consumption (Ryan, 2013). Access to credit is seen as helping with income generation for businesses as well as allowing for larger expenses such as school fees through non-business loans (Ryan, Focus Group Discussion, 2013). The income generation is seen as contributing to improved material life (Ryan, Focus Group Discussion, 2013). The Tanzanian Cooperatives were also characterised as a source of both financial and educational support when discussing their impact (Ryan, Focus Group Discussion, 2013).

Observers have argued that microfinance does have the potential to smooth consumption patterns providing people with a safety valve when times are tough (Littlefield, Murduch, Hashemi, 2003, 2). However, these claims come with a few caveats. Rahman found that consumption patterns, especially of food stuffs, were better for borrowers than non-borrowers (2010, 313 & 317) but this could be due to selection bias as less poor individuals are more likely to have access to microfinance (2010, 324). Another issue in terms of measuring consumption is reporting. Desta notes that in an Ethiopian study in which participants reported an increase in their consumption, when consumption was actually measured, there was no statistical difference with the control group (2009, 16). Due to much of the research producing these kinds of qualifications and inconclusive results, Epstein and Crane call for better operationalization of studies and more effective conceptual definitions of how we measure success (2005, 9). Desta echoes this call noting that in both the Asian and African studies, the poverty level of the recipients is not noted and central evaluating and monitoring elements are lacking (2009, 20).

More problematically, finding that microfinance increases consumption means that loans are often being used to smooth the consumption spending of households when they have financial shortfalls (Bateman, 2010, 25). When this happens, the loan is not used as an investment and does not increase household income (Imai and Azam, 2012, 639). Households often use loans to purchase food between harvests, for example, rather than investing it in an entrepreneurial activity. For the poorest (incomes less than eighty percent of the poverty line), nearly 70 percent of loans may be used for consumption (Moon, 2009, 130). It is understandable then, that an increase in consumption occurs for borrowers, especially if that is the primary use of the loan. This use of loans for consumption increases feelings of shame, psychological stress and reduces the education of the borrowers' children (Schicks, 2013, 314). It also has broader impacts for the development potential of microfinance.

Loans not being used for productive purposes negatively affects the graduation rate. The "graduation rate" for microfinance, the rate at which self-employed borrowers build up enough wealth to start full scale firms, is contingent on a number of factors, not the least of which is the motivation of the industry to promote that kind of success (Ahlin and Jiang, 2008, 1 & 18). If MFIs have a vested interest in maintaining their client base, rather than allowing them to move on to more formal lending institutions, their lending practices will reflect that. There are “advantages” to impeding graduation at the local level. Large firms often benefit from the kind of "flexibilized’ local labour market that results from a dependency on microfinance, which drives down wages, makes for poorer working conditions and cheaper, informal supply chains (Bateman, 2011, 92). Microfinance institutions also benefit in having clients for longer periods of time. More interest is earned on continued loans if the client uses loans to smooth consumption and not to graduate to a more profitable business and savings. So, while an increase in consumption can indicate a reduction in exposure to poverty in the short term, it is not necessarily indicative of breaking the overall cycle of poverty. More worrying still is that the ability to meet consumption shortfalls is being purchased by borrowers at very high interest rates, locking the poor into a cycle of indebtedness.

If the microfinance industry is committed to development rather than client retention, then programs would endeavour to encourage entrepreneurial success and productive use of loans. The industry knows that the majority of loan use for the poorest clients is for consumption (Moon, 2009, 130) and that loans used for consumption do not increase household income (Imai and Azam, 2012, 639), and yet neglects to address this. This is indicative of an emphasis on client retention in line with a financial services model, rather than poverty alleviation in line with a development model.

3.2.6 Poverty Reduction/Alleviation

A proper analysis of microfinance from a development perspective should start with a basic assessment of its impact on poverty, rather than repayment rates or profitability. Showing an interest in poverty reduction speaks to the evolving "post-Washington consensus' or 'neoliberalism with a human face" in development circles (Cornwall, Gideon and Wilson, 2008, 1). Yet, despite this homage to the development approach, studies indicate that the goal of poverty alleviation is not being reached. With respect to reduction in poverty, loans taken out by the very poor seem less effective than those taken out by the poor (Mosley and Hulme, 2009, 70). Mosley and Hulme attribute the lack of success of this "penny capitalism" to the poor being more risk-adverse and taking out "small, subsistence-protecting loans . . . (which) are seldom invested in new technology, fixed capital or even the hiring of labour but rather in working capital or, in the majority of cases, in protecting consumption standards" (2009, 71). In longer term studies, "rural women are unable to be completely self-reliant even if they are involved in microcredit programs for a long period of time (i.e., 10-15 years)(brackets in original)" (Afrin, Islam, and Ahmed, 2010, 11). Banerjee and Duflo echo this refrain, noting that while "some microcredit clients have created visionary businesses, the vast majority are caught in subsistence activities . . .(as they have) no specialized skills and so must compete with all the other self-employed poor at entry level activities" (2007). Lacking skills and devoting energies to subsistence level economic activities results in a low "graduation rate" (Ahlin and Jiang, 2008, 1

& 18). Without graduation, the borrowers are caught in a cycle of indebtedness in which they must continue to participate in subsistence activities to pay off their loans. Even optimistic studies note that it requires eight to twelve loan cycles on average for Grameen Bank borrowers to cross the poverty line (Wahid and Hsu, 2010, 167). Though loans must be taken for "productive" purposes to be effective at reducing the poverty of the borrower (Imai, Arun, Annim, 2010, 1170). However, as already mentioned most loans are being used for "consumption smoothing, ironing out the highs and low in cash flow so that crises can be met or large purchases made" and not for productive purposes (Dichter, 2007, 2). Study after study illustrates that loans are used for a variety of purposes such as "microenterprise, education and health expenses, repaying debt, on-lending, wedding celebrations and even dowry" (Arun and Hulme, 2011, 3). With the exception of microenterprise use, these are not productive investments and do not reduce the poverty of the borrower over the long term. If most recipients are using the loans for consumption smoothing purposes, then the long term impact in terms of poverty eradication will be negligible. Indeed, in Bangladesh, with 1000 MFI-NGO and 17.32 million borrowers, poverty has declined by only one percent per year since the 1990s, while the absolute number of poor increased from 55 million in 2000 to 56 million in 2005 and "hardcore poverty" has held steady (18.8 percent in 2000 and 18.7 percent in 2005) (Imai and Azam, 2012, 634). Poverty is not being reduced by microfinance, despite the rhetoric.

3.3 Conclusion

We can see that both neoliberal values and profit orientation play a role in how microfinance programs are now evaluated. Program evaluation from a development perspective would focus on the quality of life of the borrowers, the extent to which they were empowered and their ability to cross the poverty line graduating from microfinance. The criteria for a Poverty Free Life would be used to assess the movement of the borrowers beyond the poverty line. Entrepreneurial success would be emphasised and attention would be paid to obstacles to that, such as using the loans to smooth consumption spending. Strategies to ensure repayment rates stay high would be in line with empowerment goals not in direct conflict with them. The focus would be on reaching the poorest demographics to ensure they cross the poverty line along with borrowers for whom the profit margins are higher. A development approach would recognise the role that other economic factors play in reducing poverty and that the first choice for most is not to be self-employed.

However, evaluation of MFI programs does not work like this. The financial services camp argues that consumption is a proxy for quality of life, a measure of participation in a capitalist economy, and an indicator of the extent to which government intervention is not required to smooth consumption in times of crisis. The use of loans for consumption purposes is in direct conflict with the entrepreneurial success of the borrowers, yet this has not been sufficiently addressed by the financial services camp. Ignoring the fact that consumption spending reduces both the poverty alleviation impact of microfinance and the entrepreneurial success of the borrowers is indicative of negligence, at best, or a calculated marketing strategy at worst. Strategies to deal with the impediments produced by consumption spending would reduce the quantity of potential borrowers by encouraging successful graduation from microfinance.

More importantly, the broader emphasis on high repayment rates has played a central role in attracting many of the current institutions to microfinance and it is a central measure of the stability and profitability of their investments. It is not, however, an indication of whether or not poverty has been alleviated on an individual or community basis. The methods for ensuring repayment are often in direct conflict with any empowerment goals of microfinance. Efficiency is a criterion indicative of the extent to which costs are controlled, which maintains profit, but does not translate into poverty alleviation unless balanced by strict attention to mission drift. An examination of the profitability of microfinance indicates that it is operates best in limited circumstances where the clients have other employment options. This is also in conflict with the financial services camp's emphasis on the breadth of outreach. The use of repayment rates as a proxy for success, the arguments about sustainability, efficiency, profitability, consumption patterns and breadth of outreach are weak or inaccurate justifications for the continuation of a system that accomplishes neither development nor empowerment as it is currently practiced. However, despite the conflict between the profit motive of the financial systems approach and the goals of the development approach, entrepreneurship and education are an area of common ground.

Ultimately, entrepreneurship is the rallying cry of microfinance. However, access to credit alone does not make all people equally entrepreneurial and that even for those who have the potential to be entrepreneurs, capital alone is not enough. Financial services advocates of microfinance assert that lack of access to capital is central to explaining poverty. The development camp advances a more complex explanation which includes access to skills and power and the broader economic situation. We know that education, family background, literacy, local infrastructure, the local economy, training, cultural and gender norms, and the structure of the lenders all play a role in the potential success of a microfinance borrower. The financial service approach seems to ignore the nuanced characteristics that lead someone to be a successful entrepreneur by stipulating that access to capital is sufficient. Yet, in terms of variables that are easy to control, education comes up again and again as playing an integral role in the success of both the institutions and the borrowers. There also seems to be a consensus among both lenders and borrowers that it is beneficial, regardless of whether they subscribe to a development or financial services perspective. Education is an area in which both camps share the greatest consensus, yet sadly we see the provision of education in conjunction with microfinance has declined.

Chapter 4 Microfinance and Education Programs

4.1 Introduction

Education is embraced as a key component of microfinance in the literature from both camps. However, it has very different purposes in line with the goals and program architecture of each approach. As a development model, microfinance seeks to transform lives through the challenge of existing gender roles and power structures. The development camp has emphasised the group-lending structure used in the early days of microfinance to achieve both gender empowerment and poverty alleviation (Maclean, 2010, 497). This mobilises women through group lending structure with the goal of fomenting collective action and transforming gender roles (Holvoet, 2006, 38). Education was woven into this lending strategy along with empowerment.

The financial services camp has a different orientation towards education. The emphasis on "breadth of outreach and repayment rate" (Maclean, 2010, 497) informs the motivation for education. As the institutions focus on "financial self-sufficiency and institutional scale" (Woller, 1999, 1), education must fit within these goals. Education has the potential to be used in an “instrumentalist” fashion that applies “group intermediation and existing patters of gendered behaviour to enhance financial sustainability" (Holvoet, 2006, 38). Thus, while both financial services and development approaches emphasise the importance of education, they do so from very different motivations. The development perspective sees education as a means for enhancing skills, increasing empowerment, and reducing poverty. For the financial services camp, education is meant to enhance repayment rates, the sustainability of the institutions, and perhaps cultivate entrepreneurial spirit. The perceived impacts of education are different and there is debate regarding which types of training are the most effective. However, the key point is that educational programs have fallen by the wayside under current architecture despite being one of the few areas in which there is some degree of consensus between the financial services camp and the development camp.

4.2 Education from a Development Perspective

From a development perspective, many argue that "only education spending encourages the reduction of inequality" (Rudra, 2008, 67). Education is meant to close the gap and reduce poverty. Education is also seen as a means for empowerment and mobilization. Credit provision can be the collective incentive to bring women together to create "a forum for the sharing of everyday life experiences (where) women may come to realize that most of their experiences are 'collective' rather than 'individual', and they may gradually become aware of a link between their own condition of 'relative deprivation' and broader socio-economic structures" (Holvoet, 2006, 40). This requires that women actually be brought together though. "Lending groups provide a forum for capacity building between and among members, as well as a place to learn leadership and public speaking skills" but it has to be done in groups in order for these skills to be achieved (Bee, 2011, 29).

What does education from a development perspective look like? It would use

> credit as an entry point for mobilizing women into groups and ultimately to transform these groups into agents of local institutional change. . . (by adopting a) gradual approach of individual and group capacity building, including training on financial, organizational and managerial issues and awareness-raising activities related to gender and broader social development issues . . . (ongoing evaluation and monitoring) and, through the 'linkage project', 'strong' groups are encouraged to interact with local decision-making bodies and institutions such as village councils (*panchayats*), dairy cooperatives, village health committees, teacher parent associations and banks (Holvoet, 2006, 41-42).

In many ways, "the fit with microfinance is natural . . .financial education can reduce the risk of lending, provide a valued service, and support a client-centered approach" (Sebstad and Cohen, 2003, 14). To not provide education is to miss an incredible opportunity for empowerment. Despite the emphasis on education from a development perspective when microfinance first started - the Grameen Principles, for example - many of the arguments advocating for the incorporation of education of microfinance programs are in fact from the business model camp. This may be due to the dominance of the financial services approach in the broader microfinance literature noted by Karim (2011).

4.3 Education from a Financial Services Perspective

From a financial services perspective, education “improved repayment and client retention rates . . . [which are] important implications for implementing . . . market-based interventions with a goal of recovering costs” (Karlan and Valdivia, 2006). This sounds like the perfect compromise between the camps and the best of both worlds. Given the demand for education from a client level combined with the endorsement of MFIs, it should be front and centre in program architecture. Exploring its perceived benefits from a number of angles with provide us with an appreciation for the depth of the consensus

> (Financial Education) . . . can help to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions. Such financial planning can help families meet near term obligations and maximize their longer term well being and is especially valuable for populations that have traditionally been underserved by our financial system (Greenspan, 2002).

Therein lies the motivation behind many of the training programs that accompanied the services provided by MFIs. While there is an acknowledgement in the literature that the poor have sufficient knowledge to navigate traditional and informal financial service providers such as money lenders (Sebstad and Cohen, 2003, 3) and there is an overwhelming consensus that entrepreneurial spirit and intuition is alive and well in the anecdotes that populate the literature (Banerjee and Duflo, 2011, 206), there also seems to be a consensus on the existence of a knowledge gap. Financial education is intended to bridge that gap by teaching people the concept of money and the necessary skills related to managing, earning, spending, budgeting, saving, borrowing and investing it (Sebstad and Cohen, 2003, 8). However, as noted above, the emphasis on training has waned in recent years, in part due to a move away from lending practices which involved weekly meetings and towards individual lending programs. Also, the remaining training programs are now being provided by non-MFI NGOs (Morduch and Rutherford, 2003, 16).

4.3.1 Perceived Benefits of Education from a Financial Service Perspective

The ideas around education and microfinance are ambitious regardless of which "camp" they originate from. Can one teach basic entrepreneurship skills, or are they fixed personal characteristics? The findings from Karlan and Valdivia's study in Peru indicate that adding training to microfinance lending does have a positive impact on a number of areas (2006, 14). In the study, two groups of microfinance recipients were selected. One was provided with training and the other was not. The group receiving the training had higher retention rates and repayment rates (Karlan and Valdivia, 2006, 14). Business practices and understanding (reinvestment, maintaining sales and withdrawal records, and making changes or innovations in their business model) showed some improvement for those receiving training, as well as some improvement in business outcomes (Karlan and Valdivia, 2006, 14). Training improved characteristics that made the women better entrepreneurs and better capitalists. The impact on their households was less clear, although the researchers note that women who already had businesses would already be making empowered decisions about household finances (Karlan and Valdivia, 2006, 18). A broader assessment of the Karlan and Valdivia study by Karlan, Harigaya, and Nadal took into account group versus individual liability, as well as training (2006). They identified other factors that need to be taken into account when assessing the impact of education and training: location of meeting, credit officers as trainers (versus outside professionals), the type of clients, and the context (saturation of local market for microfinance and public knowledge of the program) (Karlan, Harigaya, and Nadal, 2006, 234). Frisancho and Valdivia also examine the same data and note the importance of tailoring the training to suit the initial education level of the clients (more visual aid for illiterate groups, more written work or homework for literate groups, for example) and that the initial education level was also significant for the impact of the financial training (2006, 5 & 18). For business practices and understanding, as well as business outcomes, education and training were found to have a positive impact. While they do acknowledge the gaps in our understanding of the impact of training, these initial positive findings are echoed in other regions as well.

Kessy and Temu posit that the "provision of credit alone without business skills [ensures that] it will not be possible for enterprises to perform at an optimal level" (2010, 105). Their findings support their position that through training micro-small enterprise owners can "acquire networks, transfer technology, develop commercial entities and acquire new and better management techniques" as they were able to show that sales and assets revenues were higher for businesses whose owners received training (Kessy and Temu, 2010, 103-105). They conclude that an appreciation for these benefits is essential to providers of microfinance and they need to integrate them into their service provision (Kessy and Temu, 2010, 109). Furthermore, training has been found to reduce indebtedness, when targeted at debt education specifically, rather than general financial literacy (Schicks, 2013, 315). Training has benefits for both the individual and the business owned by the individual.

4.4 Education is Not Necessary or Not Enough

There are those that assert that training has a less than dominant place in microfinance but the logic they use to assert their position is based on generalizations from poor, anecdotal evidence. Proponents of this camp, like John Hatch, the founder of FINCA (one of the top six largest MFI globally), boast, "Give poor communities the opportunity, and then get out of the way!" (2012). This sentiment is paralleled by the Yunus speech (1999, 146). By virtue of the resilience and ingenuity required to survive being poor, Hatch and others believe that the poor naturally possess entrepreneurial characteristics and simply require capital and perhaps some training to achieve success. Muhammad Yunus himself was an ardent proponent of entrepreneurship being something the poor naturally possess, noting that:

> I firmly believe that all human beings have an innate skill. I call it the survival skill. The fact that the poor are alive is clear proof of their ability. They do not need us to teach them how to survive; they already know. So rather than waste our time teaching them new skills, we try to make maximum use of their existing skills. Giving the poor access to credit allows them to immediately put into practice the skills that they already know (1999, 146).

It is curious to note that Yunus' original program architecture included quite a bit of training in the late 1970s and 1980s (Desta, 2009, 4). However, by the time this speech was given in 1999, he seemed less concerned with training and more concerned with the provision of capital. The financial services camp views the lack of access to capital as a significant, if not the primary, obstacle to eradicating poverty (Yunus, 1999, 146, Skarstein, 1997, 24, Bee, 2011, 28).

This lack of emphasis on education is a concern due to the advantage it may provide potential lenders. Are the poor, due to their lack of basic education being hood-winked? As Flynn points out that "many people may not be able to read the fine print on a bank loan . . .they may not know whether interest is being charged on the full amount of the loan or the declining balance. They may not understand compounded interest calculations and the impact on the bottom line" (2007, 117). The training associated with microfinance may not be sufficient to close this gap.

On the other side, skeptics of the entrepreneurial potential of *all* the poor, see microfinance as a component of poverty eradication but not the panacea to drag those living on less than a dollar a day out of poverty. The reasons as to why the poor are poor are seen as more complex by this group. Access to capital alone is not seen as a sufficient solution, nor is entrepreneurship the sole route out of poverty. Banerjee and Duflo would fall into this camp (2003, 2007 and 2011). The deviation arises from, not only the development perspectives of the development and financial services camps, but also in how the poor are viewed as individuals and as a group and how the researchers explain why the poor are poor. This disagreement over the causes of poverty obviously would result in disagreement over the solutions to poverty; for example, whether or not education should be broadly based or geared toward entrepreneurship and financial skills. Thus, within the training literature, there is debate over which training is necessary and whether those with a solid educational base either self-select or are predisposed to success. Most development models treat human capital as fixed (Karlan and Valdivia, 2006, 1). Do the poor have any particular proficiency with entrepreneurial activities over the general population? If they do not, can they be taught? Is entrepreneurial education the most effective means of eradicating poverty for the largest number of people?

4.5 Demand For Education

Training is seen as valuable by microfinance borrowers. While some of the internal studies from the microfinance industry need to be taken with a grain of salt, given that positive findings are to their benefit, these studies still provide insight so long as the potential bias of their authors is disclosed. However, one national study revealed "unanimous demand from group members in all villages that skill development/training was required for undertaking any income generating activity and they felt that MFI alone would not help in improving the[ir] livelihood" (Agriculture Finance Corporation Limited, 2008, 14). The same study asserted that "greater opportunities for increased responsibility, awareness and skills were available to women in leadership positions" taken on as part of their participation in group lending (Agriculture Finance Corporation Limited, 2008, 29). Tanzanian research confirmed a strong demand for financial and entrepreneurial education among microfinance recipients at the Tanzanian Cooperatives (Ryan, Focus Group Discussion, 2013).

Indeed, much of the research from microfinance specialists focuses not on whether education is important but on what kind of education "works." Cole and Fernando add another dimension to assessing training, that of self-selection and innate ability (2008, 5 & 6). Those with access to microfinance may also have a stronger educational base. We know that MFIs have a slight aversion to rural clients (Roberts, 2012, 8) who would also have reduced access to education (Anand, 2011, 10). Thus, we are studying educational impact on a group already with a relatively stronger educational base. Cole and Fernando's review of American studies regarding financial literacy indicates that there may be a correlation between greater financial education and greater literacy but that the causal relationship has not been demonstrated (Cole and Fernando, 2008, 6). Experiences derived from a particular socio-economic background may provide the correlation between financial education and literacy. This is an issue which was echoed by Frisancho and Valdivia (2006, 5 & 18). With these insights, we can see that financial literacy may come about as a result of factors other than training focused specifically on financial literacy. If the educational base the women have going into the training is more significant for their success than the training itself, then perhaps moneys would be better spent on literacy campaigns or the provision of basic education before or simultaneously with business training.

This concern regarding baseline education extends to studies on the impact of geography. Regional differences in education levels were also found to be significant. Regions with higher literacy rates are more likely to have higher microfinance penetration and therefore, access to microfinance (Anand, 2011, 10). This particular finding is not necessarily demonstrative of a causal relationship, though. Literacy rates also correlate with infrastructure such as roads, good governance, and schools, which play an important role in microfinance penetration (Anand, 2011, 12). This is indicative of mission drift insofar as MFIs avoid rural areas in favour of more accessible and more developed areas. Other regional variations are noted in terms of poverty reduction and loan purpose.

In terms of the development of entrepreneurship, Afrin, Islam and Ahmed examined a multitude of variables in Bangladesh. Their findings echo earlier concerns regarding baseline education, specifically literacy (2010, 31). For women with greater financial management skills and higher group integration, they had a higher chance of being entrepreneurial (Afrin, Islam and Ahmed, 2010, 29). A woman's family background in terms of the entrepreneurial characteristics of her parents, and personal characteristics such as independence and creativity were also positively correlated with entrepreneurial tendencies (Afrin, Islam and Ahmed, 2010, 28).

There are many variables at play when considering the role of education in development, especially when there are limited resources and choices must be made about what kind of education should be provided. As noted by Sebstad and Cohen:

> From a practical standpoint, questions remain about the most appropriate and relevant content for financial education training, counseling, and materials. Obviously, this will vary by group and circumstance and must be adapted accordingly. Offering financial education in a context where many people are illiterate and have limited exposure to any kind of training is one challenge. Dealing with highly sensitive social and personal issues is another. An overriding issue is how to affect a change in mind set in environments where future prospects are often less than bright (2003, 13).

The refrain of the research is that baseline education and background is a significant indicator of how successful any financial literacy or entrepreneurial training will be. Development efforts that include microfinance must take into consideration the circumstances in which they are operating and tailor educational programs to meet the needs of the locality. A cookie cutter approach to education which expects all microfinance borrowers to be transformed into entrepreneurs is not going to achieve success from a development or financial services perspective.

4.6 What is the Current State of Education?

Education factored into the provision of microfinance when it was originally conceived. The Grameen Bank started with the 16 Decisions which are still featured on the Bank's website. Yet, these no longer factor into the microfinance procedures as observed in Karim's field work:

> Grameen Bank and BRAC had a list of social awareness issues that their members were required to learn and recite at the beginning of each meeting. For example, women at the Grameen and BRAC meetings I visited no longer recited the Sixteen Decisions (Grameen) or the Seventeen Rules (BRAC). When I mentioned this fact to the field-worker, he made them perform for me, but many of the women no longer

> remembered the rules; they had to be prompted. I found that newer members had never learned these rules in the first place. In some of the loan meeting centers, the processing was focused on financial transactions. The women wanted to hand over the money and return home to do their housework, and the officer was busy counting the money. If all transactions went smoothly - that is, if everyone was able to pay without a hitch - he would pack up and leave for the second loan meeting place. At the field level, I observed that the field workers of these NGOs had little time to devote to training or to other social issues, although on paper all these NGOs claim to do so. The field-workers spend the bulk of their time distributing and recovering loans (2011, 75).

Proshinka, another leading NGO that became a microfinance institution, began with an active role "organizing and teaching poor people to fight against rural elites who controlled land and water rights" but by the late 2000s had "cut social programs in non-formal primary education, adult literacy and cultural activities due to the withdrawal of donor support" (Karim, 2011, 16 & 65).

The Tanzanian Cooperatives examined in this study provide a contrast to these stories as the cooperatives provide education on health issues, financial issues related to the cooperative, livelihood training and support (Ryan, Field Work Observation, 2013). However, a constant refrain from the focus group discussions was the demand for more education and training (Ryan, 2013). This was echoed by the field-workers who would have liked to see more resources directed at training and support. Even in the more successful areas, where the cooperatives are strong, gender disparities appear to be at a minimum, and the individual members of the cooperatives have strong and successful businesses, the focus group participants asked for further training on sustainable livelihood activities (Ryan, 2013). In areas where the cooperatives were not as strong, and were receiving more support, the focus group participants often mentioned further training in accounting practices specific to the cooperative (Ryan, 2013). In areas where gender issues had been brought up in the focus groups, training was requested to "teach the men how to be better fathers and husbands" (Ryan, 2013). Each community was able to identify an area in which they felt weak or for which they needed help developing a long term plan, and they felt that education was a means for strengthening their communities and futures.

4.7 Conclusion

The consensus within the literature from both the financial services model and development camps is that education is necessary and beneficial. The chief concern seems to be resource allocation between kinds of education and evaluating which type of training would have the most impact. Whether education should be directed at basic literacy and numeracy programs versus sessions geared towards entrepreneurship is contested, but despite the occasional comment by John Hatch or Yunus, there is little debate about the need for some education. Despite this overwhelming consensus amongst microfinance providers and recipients on the value of education, research suggests that the current incarnation of the microfinance industry no longer provides much training of any sort. For the development camp there has been no break with the education and solidarity lending philosophy. From this perspective, education, mobilization and solidarity are inextricably linked, but under the financial services incarnation of microfinance we see a gap between the rhetoric and practice. Have the goals associated with education changed? Have the desired effects of education, the retention and repayment rates, been met by other factors, namely high consumption rates resulting in low graduation and instrumentalization of gender roles ensuring high repayment rates? Or has education been found to promote solidarity, mobilization and empowerment in conflict with profit? Education has been performed traditionally in solidarity lending groups and with the move towards individual borrowers, the mechanism for providing education is no longer in use. Is group solidarity in conflict with instrumentalizing gender roles?

Chapter 5 Gender Instrumentalization

5.1 Introduction

Microfinance as a development model aims to transform the lives of those it touches, mostly women. It is in line with a gender relations development model which addresses "the power relations between women and men (and) . . . goes beyond looking at male power and privilege within the domestic domain of families and households, to uncovering its operations within the purportedly neutral institutions within which development policies are made and implemented" (Kabeer, 1994, xii). The development approach "uses credit as a means to mobilise women into groups and to stimulate collective action that may contribute to the transformation of gender relations themselves" (Holvoet, 2006, 38). This approach utilises "group formation as a strategy to combine microfinance's dual aims of *poverty alleviation and the empowerment of women*" (italics added) (Maclean, 2010, 497). A less gendered conceptualisation emphasises only "direct poverty alleviation" (Woller, Dunford and Woodworth, 1999, 1). However, the shared thrust of development-based microfinance is the transformation of power structures: be they gender or economic based.

The financial services approach conceptualises microfinance as a business model. This camp "applies group intermediation and existing patters of gendered behaviour to enhance financial sustainability" (Holvoet, 2006, 38). For financial services advocates, "success is measured in institutional terms such as breadth of outreach and repayment rate" and microfinance institutions should be financially sustainable (savings and interest rates should cover the cost of loans and administration without need for subsidies) (Maclean, 2010, 497). In an attempt to rebrand themselves in the wake of allegations of mission drift, those advocating for higher interest rates renamed themselves the "*sustainability*" camp (Rhyne, 1998, 6). Their argument was that a system based on donor contributions would soon run dry and they only way to "assure access by the poor to financial services is to ensure that the private sector finds it profitable to provide such services" (Rhyne, 1998, 7). Under the financial services approach, "the aim became to overcome credit constraints and meet demand efficiently, rather than supplying the poor with cheap loans. MFIs were expected to be able to charge market-based, cost covering interest rates without diminishing demand (Lützenkirchen, Weistroffer, and Speyer, 2012, 5). With a focus on "financial self-sufficiency and institutional scale," the financial services camp values building the strength of the financial institutions supplying credit (Woller, 1999, 1).

While Holvoet notes that there are no overview studies that indicate the prevalence of one approach over the other (2006, 38), there are a number of scholars (Lützenkirchen, Weistroffer, and Speyer, 2012, Woller, 1999, Schmidt, 2010, Karim, 2011, Bateman, 2010) who assert that a financial services model has clearly gained ascendancy under the 'development' umbrella of "neoliberalism's and 'flexible capitalism's' agenda" (Funk, 2013, 188). Holvoet does note that given the presence of financial profitability criteria, microfinance institutions "will usually be reluctant to fundamentally upset gender norms that serve their purpose so well" (2006, 38). A review of the gender impacts of microfinance demonstrates that not only is the financial services approach dominant but that it utilizes traditional gender roles to maintain repayment rates and profit margins rather than utilizing microfinance as a means for achieving empowerment.

5.2 The Competing Claims of Microfinance's Agenda for Women

Microfinance did not start out as a program directed at women. This gender neutral start is not surprising given that, prior to the International Year for women in 1975, there was little discussion of women in development (Kabeer, 1994, xi). Yet, despite its beginnings as a "gender blind" program, it quickly adopted principles reputed to address gender inequalities in line with the increasing visibility of women in development thinking. This reputation was not accomplished by changing program architecture to address a gender gap, but rather through the simple fact that by the turn of the century most microfinance clients were women. Nor was the shift in line with a "gender relations" approach which challenges the power relations within society and institutions (Kabeer, 1994, xii). Rather, microfinance drew on the broader post WWII development architecture which addressed the needs of women from the perspective that their primary roles were those of wife and mother (Kabeer, 1994, 5-7). Development programs generally "entailed marginal and financially unviable activities chosen for their compatibility with women's reproductive/domestic roles rather than for their profitability" (Kabeer, 1994, 8). This is the epitome of "empowerment lite,' accommodating women within rather than challenging or transforming the existing social order" (Cornwall, Gideon and Wilson, 2008, 4). The failure to challenge of the existing social order has much to do with the profit motive of many microfinance programs which creates a reluctance to transform gender roles which often increase profitability (Holvoet, 2006, 38). In microfinance under the financial services approach, profit motives trumped an opportunity to use the provision of financial services to transform the lives of women in line with a development model approach. This paralleled the broader movement in which structural adjustment policies dismantled the ability of the state to do likewise.

While there are many studies examining the outsourcing of services to the third, or nongovernmental, sector as it is common practice to do so in both developed and developing nations, microfinance is a novel application of the concept, and perhaps the first time such outsourcing would be categorised as playing such a large role in providing community service. The potential for this is outlined in Kohli's findings regarding the downward reach of the state. Both the colonial and the post-colonial governments maintained patronage linkages and did not replace existing social structures (Kohli, 2004, 261). In the absence of state employees, the workers who came to fill it are seen as an extension, or part of the government, rather than a complement to it. Microfinance penetration compared to that of the government is so extensive that workers are often referred to as *sarkar* (government) (Karim, 2011, 78).

NGOs began their role in Bangladesh as providers of education, health care and sanitation, family planning and credit, part of the "integrated rural development model" (Karim, 2011, 15). This broad outreach was further entrenched by the support of the government in the 1970s and 1980s who sought to split the left-wing opposition by providing monies to NGOs (Karim, 2011, 16) and the cyclone of 1987 in which foreign donors refused to deal directly with the government and provided relief via the existing NGO network which was better equipped to provide relief and seen as less corrupt (Karim, 2011, 19). However, NGOs are donor dependent and by the late 1980s we see a move towards a microcredit model (Karim, 2011, 17), in line with the normative neoliberal shift outlined by Kohli that also transformed policies in India. This is due in part to the possibility that “if women’s income from private sources such as microfinance increases, public services can be reduced” (Bee, 2011, 28). By the late 2000s, Proshika had cut social programs for education, literacy and culture due to lack of donor support while for Grameen, and BRAC, meetings (formerly education opportunities ensuring social cohesion), education and social programs had fallen by the wayside (Karim, 2011, 65 & 75). Women’s “sense of moral duty and responsibility to care for their families in the face of neoliberal elimination of their traditional ways of doing so. . . (drove them to) ‘Mcjobs’ in factories and maquiladoras, taking microcredit loans, entering prostitution” (Newman, 2013, 188).

5.2.1 Feminism Responds to Neoliberalism

Structural adjustment policies and microfinance are complementary. Structural adjustment policies mandate the reduction of state services and microfinance ensures that women can acquire money from alternative sources so that "public services can be reduced" (Bee, 2011, 28). Structural adjustment policies and the neoliberal paradigm from which they come have been highly theorized by feminism. These policies, conditions of aid from Northern countries, require “harsh financial reform which often negatively impacts women much more than men” (Jain, 2004, 69) thereby increasing “the gap between the power and status of men and women” (Sapiro, 1998, 170). Not only have they created a larger power gap, these policies have increased the work of women who strive to compensate “for retrenchments in health and social services” (Alexander, 1991, 148). Family life has been destroyed as those controlling production are “unconcerned with the interests of the labourers” (Gilliam, 1991, 221). This “shrinking state role in the realm of social policy” has resulted in the cooptation of NGOs to become service providers (Alvarez, 2004, 135). Structural adjustment policies, in combination with microfinance, have created a system which reinforces and instrumentalizes gender roles to the disadvantage of women and the advantage of capitalism and neoliberal profit motive. The cutting of social programs has occurred not only within the microfinance industry but at the state level as well as countries are expected to enforce structural adjustment policies. For developing countries, the adoption of economic liberalization has resulted in “a distinct and recent rise in poverty and inequality” (Rudra, 2008, 5).

Bracke (2004) discusses the extent to which neoliberalism ignores relations of power and inequality. Imperialism, which now takes the form of neoliberal economic policies, is "'the main enemy'" (Johnson-Odim quoting Savane, 1991, 320). Economic policies and economic inequality arising from the current global economic structure figure prominently in the literature assessing the demands of the African women's movements (Johnson-Odim, 1991, 320).

Rai notes that the culture surrounding the conceptualization of politics in the aftermath of World War II was formed around a understanding of conflict that glorified risk taking (2002, 45, note 2) which then informed aid and development policy, linking them more closely with security than development (2002, 47). This theme of a conflict between the values trumpeted by capitalism and those advanced by feminism has continued ever since. Shiva notes that the "devaluation of women's work and of work done in sustainable economies is the natural outcome of a system constructed by a capitalist patriarchy" (2004, 28). When "multinational corporations are the 'muscle and brains'" (Russell Hochschild, 2004, 35), the preservation of life is not valued. Child care (Russell Hochschild, 2004) and food security (Shiva, 2004), issues at the heart of many women's movements, are under constant fire under globalization. Transnational feminists identify "intensifying globalization/neo-liberalism" as a negative force (Jindy Pettmen, 2004, 49) due to the damage done by structural adjustment policies and the dismantling of the welfare state (2004, 55).

Changing the situation of women requires a "monumental change" in how we perceive and value women (Jain, 2004, 70). Not only do structural adjustment policies and the reduction of services at the microfinance and state level result in the outsourcing of these services to women, but also ensure that capitalism has a reservoir of labour. Microfinance as business model fits into this greater neoliberal framework as not only does it emphasises "equal access to financial resources to support growth of private enterprises and the 'free market" (Bee, 2011, 28) but the smoothing of consumption also reduces demand for public services in line with structural adjustment policies. Rather than integrate feminist demands such as these into development policy, the “add women and stir" approach was taken, and in the process both the message and the method were distorted.

5.2.2 Bringing 'Feminism' into Microfinance

Newman notes the extent to which "neoliberalism exploited, distorted, and co-opted feminist arguments, as capitalism has long done with progressive movements it is unable to defeat, justifying microcredit loans as empowering women to start their own small businesses" (2013, 189). This co-optation of the language of feminism has meant that there seems to be a lack of awareness in the microfinance literature that programs in which women participate and programs which empower women are not the same, especially for proponents of the financial services camp. Much of the research is self-referential and MFI have become "discursive epistemic machines" designed to ensure replication of the programs, increase funding, and satisfy investors (Karim, 2011, 167). As such, much of the internal research does support the current lending practices within the industry which favour female borrowers. The World Bank asserts that repayment rates are higher among female borrowers due to "more conservative investments and lower moral hazard risk" (D'Espallier and Guérin, 2011, 758) and there seems to be a general consensus in the literature that women borrowers are fundamentally different from male borrowers as a group.

Whether through international pressure or a local assessment of differing repayment rates based on gender, there was a shift in lending practices towards women, which the literature came to support. Inherent in the assessments of microfinance to facilitate reaching the Millennium Development Goals (Littlefield, Murduch and Hashemi, 2003) for its recipients is the extent to which women are capable of being conduits for this change. Are women better equipped to ensure that their family members are healthy and educated, while ensuring their own emancipation?

Women are seen as "natural entrepreneurs, who, if given capital, will act according to the norms of competition, hard work and thrift" (Karim, 2011, xxii). The creativity of poor women in their ability to eke out an existence struck Yunus as he was developing the idea of microfinance (Bateman, 2010, 8). It is this creativity, combined with a belief in women having a different set of priorities that makes them more effective conduits for achieving the Millennium Development Goals. The Consultative Group to Assist the Poor (CGAP), a microfinance research centre housed at the World Bank, asserts that microfinance can help achieve universal primary education, reduced child mortality and maternal health as it puts economic power in the hands of women and "women care about these things more than men do" (Banerjee and Duflo, 2011, 168). Women are believed to be more likely to invest in household and family well-being and with access to financial services, are "better able to confront systemic gender inequalities" (Littlefield, Morduch and Hashemi, 2003, 6). *Purdah*, in Bangladesh, which confines women to the home (Afrin, Islam and Ahmed, 2010, 10 and Karim, 2011, 59) seems to inform these interpretations of traditional gender roles that emphasise women as being experts of hearth and home.

The logic behind most of this is that if we want to improve the quality of life in the home, we need to provide financial power to those who operate in that sphere. This public-private split in gender roles in quite common throughout gender studies and traditional gender roles are often utilized to further philanthropic goals (Ryan, 2001, 44-45). Thus, the microfinance industry asserts that women are not merely better financial risks for their ability to meet repayment schedules but are also better conduits for achieving a Poverty Free Life due to adherence to traditional gender roles which make women particular experts on issues of home and hearth. However, while the rhetoric regarding the focus on women by the microfinance industry is appealing and optimistic, the reality is quite different.

5.3 The Utilization of Gender Roles by the Microfinance Industry

On a basic level, from the outset, the microfinance industry had already reinforced traditional gender roles by asserting that women, experts of home and hearth, were better conduits for achieving the Millennium Development Goals. However, this has been taken a step further by the utilization of these traditional gender roles to ensure high rates of repayment and profits. The neoliberal assumption that microfinance recipients are autonomous and rational clients of a business enterprise is a central flaw in program design. This view ignores a more layered description of female borrowers that have limited financial autonomy and would be required, due to kinship obligations, to transfer their loans to a male relative (Karim, 2011, xvi). Yet, this complexity is not lost on the MFIs who actively manipulate kin and social relations to ensure their financial goals are met. This manipulation, termed “governmentality,” is defined as "the creation of a set of rules, conducts, and procedures that aim to achieve selected goals through the supervision of targeted populations" (Karim, 2011, xvii).

The "economy of shame" has been explored in other works on microfinance but not conceptualised as a tool utilized by MFIs to achieve their ends. Karim (2011) argues the economy of shame is particularly important as it illustrates how MFIs have been able to achieve such high repayment rates. This, in turn, calls into question repayment rates as an effective means for evaluating the "success" of microfinance programs. She takes the normative view that instrumentalizing cultural norms to further exploit the disadvantaged position of women cannot be seen as a success in development terms.

Bateman adds to Karim's gender-based analysis with an economic critique of the "flexibilization" of the labour force which disproportionately affects women and drives down the cost of labour and benefits for employers in line with the neoliberal agenda (2010, 43). This amounts to furthering a situation in which women are a source of "non-contractable labour," a euphemism for "unpaid female labour" (Bateman, 2010, 47). Keeping women in traditional sectors creates “a huge ‘labour reservoir’ for the modern sector” (Skarstein, 1997, 53). Insofar as microfinance does not encourage graduation, it is complicit, if not active, in ensuring women are readily available for work at low wages. These low wages have created what the UN has termed the “feminization of poverty” (Kabeer, 1994, 9). Bateman further posits that microfinance is used to discipline women, by using the "economy of shame," to make women more "market-friendly" (Bateman, 2010, 47). Microfinance allows women to engage in capitalism “without confronting the inequalities within systems of globalization and development, the restructuring of the global economy and capitalism itself” (Montes Ireland, 2011, 51).

5.4 Microfinance and Gender Program Evidence

In 1979, less than 40 percent of Grameen Bank clients were women- eleven thousand out of twenty-eight thousand (Karim, 2011, 71) but by 1999, this had surged to 95 percent (Wahid and Hsu, 2010, 164). The shift to female-centred lending was the result of gender becoming tied to aid programs[2] under the U.S. Percy Amendment and the United Nations Decade for Women (Karim, 2011, 71). However, Bateman argues that the shift is really due to the realization that women were more effective at repayment, a sentiment echoed by Yunus (2010, 9-10).

Anecdotal success stories, particularly from those critiquing microfinance, seem to support the idea that women who benefit from microfinance illustrate several tendencies. They are:

> women whose husbands had steady incomes from petty trading or who owned several acres of land; women who were widowed or abandoned and *who did not have a male relative who could make a claim on their income*; women who had *marketable skills*; and women with husbands who were ill or less controlling and who allowed them to participate in income-generating projects. These women were more outspoken about their autonomy and made comments such as, "I go wherever I please," or "My husband doesn't understand money" . . .A majority of these women did not live with their in-laws, and that increased their independence and decision making power within the household . . . They were *knowledgeable about markets* and displayed a certain savoir faire. These women lived by the principals of competition and rationality (emphasis added) (Karim, 2011, 80 & 199).

From these cases we can glean that a present and dominant male partner or relative hinders rather than helps females achieve success. If a male relative being in control of the finances impedes achieving business success, the implication is that males are not as effective at achieving success based on these criteria. This is in line with the general assertion by the microfinance industry that women are better investment risks and managers of money. That some of the male partners of borrowers in Tanzania had to be placated and cajoled by the Tanzanian Cooperative staff to be comfortable with their wives taking on new roles was noted in a private conversation with NGO

[2] Karim also notes that Bangladesh during this period required substantial outside help. Much of their aid was dependent on following the stipulations of Western donors. Even during the recovery efforts after cyclones, receiving aid was limited to aid administered by nongovernmental organizations as they were seen as being less corrupt than the government and has having better infrastructure. Western control was not limited to microfinance or gender-based initiatives (2011, 7-13).

employees during the research for this project (Ryan, Field Work Observation, 2013). This indicates that some intervention in the perception of gender roles is necessary to ensure success. Knowledge or skills are also shown to increase the likelihood of success supporting the logic of providing education in the early stages of microfinance.

D'Espallier and Guérin point out that many of the findings that women achieve better repayment rates due to the nature of their investment activities[3] are based on an understanding that women control the loans they receive (2011, 759). However, much of the literature suggests that adherence to traditional gender roles ensures that perhaps only five to ten percent of the female recipients of loans controlled the money jointly with a male spouse and the rest are required to give it to a male spouse, losing control of the funds completely (Karim, 2011, 55 & 86). Despite losing control of the loan, the women still take responsibility for repayment, often picking up odd jobs to do so (Bateman, 2010, 43-44). The implications of women not controlling the loan are huge. Focus group discussions in Tanzania revealed that some women had their loans or the profits from their businesses stolen by thugs hired by their husbands while on the other end of the spectrum women had to discuss all financial matters jointly with their spouse (Ryan, 2013). If the women are seen as those most committed to achieving the Millennium Development Goals then lending to them is justified on those grounds, but if the women do not actually control the loans, how are these 'development' goals being met? Loaning to women in the absence of transformatory development policies would seem to be more in line with the financial services model as it simply ensures repayment rates stay high. It also reduces the graduation rate[4] for

[3] Female-specific activities have quicker turnover rather than male-specific activities which have higher risks, e.g. small businesses versus agriculture. A division of labour based on gender roles makes women lower more effective at repayment.
[4] The "graduation rate" is the rate at which self-employed borrowers build up enough wealth to start full scale firms (Ahlin and Jiang, 2008, 1 & 18).

microfinance as we can see that the women who are successful retain control of the loans themselves. Loans must be taken for "productive" purposes to be effective at reducing the poverty of the borrower (Imai, Arun, Annim, 2010, 1170) whereas often they are actually being used for "consumption smoothing,' ironing out the highs and low in cash flow so that crises can be met or large purchases made" (Dichter, 2007, 2). If loans used for consumption smoothing are "positively and highly significantly related to shame as a social/psychological sacrifice . . .psychological stress . . . and to reductions in the education of the borrowers children" (Schicks, 2013, 314) and we know that women are not controlling the loans, how can they control whether or not they are used for productive purposes? Not only are we reducing the graduation rate but we are subjecting women to the stress and poverty associated with indebtedness. It must also be remembered that often the interest rates on these loans is shockingly high.

5.4.1 The "Economy of Shame" in Practice

Part of the reason for the ease of ensuring repayment is due to the fact that "women can be located easily . . . they cannot run away, leaving their homes; they can be persuaded to repay more easily as they feel shame quickly and consider non-repayment a matter of family honour" (Cornwall, Gideon and Wilson, 2008, 5). Assessing women as a good investment risk does not capture the sociocultural and positional vulnerability (Rahman, 1999 and 2004) of the borrowers or the extent to which traditional gender roles are exploited using shaming to ensure repayment (Banerjee and Duflo, 2011, 167).

Manipulation of honour and shame, harassment, and the various methods used by MFIs have been well documented by the media and academics- Andhra Pradesh[5] is the most infamous example- but had not previously been explained as an instrumentalization of cultural norms under the umbrella of governmentality. Focus group discussions in Tanzania as part of this project illustrate these dynamics well. There was another microfinance provider operating in the community that would recoup a defaulted loan by seizing the furniture or household materials of the borrower and selling them to pay back the loan (Ryan, Focus Group Discussion, 2013). This is referred to as "house breaking" in the microfinance industry. In some areas it is enforced by the other women in the solidarity group or *socia*, who are collectively responsible for the loan. According to Bee (2011), the MFIs she examined were rife with these tactics:

> Hilda had borrowed money from the organization to buy materials for an artisan cooperative to which she belonged. She bought weaving materials, dyes and other miscellaneous tools and equipment. Because she was a part of this cooperative, she had an additional source of social support and advocacy from her co-workers and, with their help, she was able to make her payments during the first cycle of credit. But during the second cycle she had some financial problems and could not make her last payment. Two days later, several members of her group came to her home in what she described to me as 'an abuse of power, mistreatment and verbal aggression'. She said they harassed her horribly and left with several items of value, including her cooking stove, which was the only means she had to prepare meals for her family (36).

Failure to repay loans is seen as a "wrong" committed by the woman against her family or kin group (Karim, 2011, 130) or against the other women borrowing from that MFI. If the MFI workers come to a woman's home to insist on repayment, the wife is the "conduit for the penetration of external laws (the courts, police) into the patriarchal home, in which the husband reigned sovereign" (Karim, 2011, 92) and it is the woman who "dishonors her husband when outsiders come into her house and verbally abuse her" (Karim, 2011, 86). Not only has the MFI

[5] Suicides committed by individuals overly indebted led to an ordinance by the government to prevent borrowers from being harassed. See Mader (2013) for a summary.

industry instrumentalized shame in this sense, they are actively pursuing poorer clients who are easier to manipulate. MFIs acknowledge that such practices will not work with richer clients and refuse to lend to them (Karim, 2011, 102). Such practices often result in divorce or abandonment for which the women have no legal recourse as NGOs providing legal support refuse to enter into conflict with MFIs (Karim, 2011, 92-92).

Through a variety of shaming practices, MFIs ensure that their female clients modify their behaviour to achieve MFI goals and objectives. It is a sad irony that the focus on women in microfinance is justified by their expertise on all matters of hearth and home, and yet one of the methods for ensuring repayment is house breaking.

5.5 Conclusion

The rhetoric in favour of neoliberal "development" demands the acquiescence of women but does not deliver on its promises to free them: "for women to debate the desirability of economic growth is to debate whether women should have the chance to cease to be beasts of burden and to join the human race" (Lewis, quoted in Kabeer, 1994, 19). Quotes like this set up the neoliberal paradigm of development as the only route to emancipation. However, the neoliberal financial services microfinance model does not offer women emancipation, rather it invites women to participate in an economy that has been stripped of its social services, in which the burden allotted to them by traditional gender roles has been greatly increased. The microfinance industry, in line with the reduced state apparatus of neoliberalism, has supplanted social programs by pushing women to fend for themselves and their families. Deviating from a development approach that would focus on the empowerment of women, the financial services paradigm has instrumentalized gender roles to ensure the sustainability of its institutions, rather than the sustainability of the societies in which it operates. This is likely due to a shared ethos with neoliberal economic reforms that “have a marked tendency to reproduce and reinforce deeply conservative notions of womanhood and of women’s role within the family” (Cornwall, Gideon, and Wilson, 2008, 2). It has cultivated, reinforced, and instrumentalized gender constructs in an abusive fashion to ensure high repayment rates and the associated profits. While the rhetoric surrounding the focus on women in the microfinance industry indicates that women are specially equipped to achieve the Millennium Development Goals if only given access to capital, we can see that women often do not in fact control the loans. Instead, they are simply responsible for ensuring they are repaid. Thus, we can see that the only strategic advantage to loaning to women in the absence of transformative programs is repayment based. This gap between rhetoric and practice in the microfinance industry stretches from the program architecture impeding development to the lack of educational programs to the abuse rather than empowerment of women. Yet, despite this gap, one can still invest in an "ethical" equity fund with Unitus, make a charitable donation or invest in FINCA, raise money for the Grameen Foundation, donate to Opportunity International or become a corporate partner with Women's World Banking. The appearance is that one is making money or donating and a social good is being achieved. Yet, in the name of "development" or "charity" women have been abused rather than empowered. This brings renewed depravity to the term “charity washing.”

Chapter 6 Conclusion

6.1 Economic Empowerment

My interest in microfinance began while I was studying the impact of Export Processing Zones on gender roles and empowerment for women in Taiwan during the 1970s. Women, who had formerly not held paid employment outside the home, were recruited en masse to work in the factories that made the "Made in Taiwan" label ubiquitous. The arguments for employing women ranged from their traditional gender roles making them more docile employees to the fact that the demand for labour exceeded that which could be supplied by the males. As noted by Gallin, the motivations were far from altruistic:

> Women meet all the criteria defining the requisite labor force. First, they are a submissive and docile labor force, willing to accept low wages and unlikely to agitate for increases in these wages. Second, they are a minimally trained labor force, willing to accept the lackluster and poorly paid jobs available in labor intensive industries. Third, they are a transient labor force, willing to accept low wages and unlikely to remain long enough to demand higher wages and job benefits. Fourth, they are a tractable labor force, willing to be drawn into or expelled from the labor market according to the exigent needs of the capitalist economy (1984, 17).

The women left their birth homes, a practice heretofore unheard of, and were housed at or bussed to factories where they were provided with work, training, and education. These girls would otherwise have been raised by their natal families only to be lost to another family in marriage (Gallin, 1984, 8). However, the girls became wage earners before marriage contributing to their natal families. While many of the girls sent money home to their families, it did give them their first experience with disposable income of their own and not their father's or future husband's (Kung, 1978, 193). While there were other factors at play, in a short period of time, Taiwan went from becoming a society espousing traditional gender roles to one in which women held more public, private, financial, education and political clout and changing the gender balance hinged in no small part on the economic empowerment of young girls and women through public waged employment. The attitudes towards money, property, power and gender relations of the 1970s and 1980s noted by Gallin and Kung changed greatly over the next forty years.

While researching the gendered impact of the Export Processing Zones, my interest was sparked by Muhammad Yunus' Nobel Peace Prize for the Grameen Bank's microfinance program. These were halcyon days for the microfinance industry. It seemed so simple and yet so brilliant: by providing women with access to capital, they were able to start small businesses, support their families and transform traditional gender roles. The logic appealed to many. Access to economic power had had a similar impact in my research on Taiwan. It was a grass roots, "bottom up" means for bypassing the clunky and ineffective development machine, and it put money, and therefore power, into the hands of women. The promise of employment opportunities, increased entrepreneurial spirit, increased productivity, economic security, improved nutritional and health status, improved housing conditions, increased asset possession and wealth creation, social empowerment, awareness and educational improvements, improved self-esteem, increased sense of dignity, organizational and management skills, mobilization of collective strengths and increased independence and greater financial solvency was enticing (Afrin, Islam, and Ahmed, 2010, 10). Like many, I was sold on the rhetoric rather than the reality of microfinance.

6.2 Rhetoric vs. Reality

Regardless of the founding rhetoric of microfinance, a transformation has occurred which makes it quite a different beast. Founded with the intention of making poverty something people "see in museums" (Negus, 1997), by the time Yunus was awarded the Nobel Peace Prize, microfinance had been practiced in Bangladesh for thirty years by 1000 MFIs with no measurable or notable decrease in poverty levels. This despite 17.32 million borrowers (Imai and Azam, 2012, 634). Contrary to the notions of empowerment MFIs often market, MFIs operate very differently in practice. The gap between the rhetoric and the practice is staggering. What has happened? Originally, microfinance as most understood it, had been practiced in line with the ideas of what I have termed the "development camp." Geared towards the transformation of gender roles and the empowerment of women, it was meant to put economic power in the hands of women. At the heart of this idea is the use of training, education and solidarity to provide women with the skills, support and inspiration to manage their businesses and to carve out a more powerful position in their own lives. Children would go to school, and go to school with full bellies so they could learn. Community based, this would not only impact individuals, but their families and their communities, increasing the level of education so that the next generation had even greater skill sets to draw upon. A child born to a mother who participated in the first incarnation of microfinance would now be 37 and likely have children of their own. Even a child born to a mother who entered a more mature microfinance industry in the late 1980s would be 27 and also likely have children of their own. Yet, despite all the fanfare, the grandchildren of microfinance are not inheriting a set of opportunities any better than what their grandmothers would have encountered.

This is due to a number of factors, most important of which is the ineffectiveness of microfinance in achieving development. The more contemporary financial services incarnation of microfinance demands a very different set of goals for the industry than the humanitarian goals initially promoted. Simply put, profits have now been placed before development. The businesses set up by the women are sustaining, at best, and debt-traps, at worst. The capital required to make a meaningful investment in a business that would grown and develop, employing more than one person, is simply not provided by microfinance. The weekly repayment schedule does not match the profit flow of businesses except petty trading which offers little to no room to grow. The interest rates charged are not in line with the profit margins of any industry. This is a result of the structural changes brought about by a profit motive. When microfinance is conceived as a financial service instead of an opportunity to facilitate development, it does not get evaluated as a development program. Rather, it gets evaluated as a financial service for which the criteria are profit margins, repayment rates, long term institutional stability forecasts and the like. Issues such as empowerment, community development, graduation rates, increased school attendance, reduced spousal abuse or increased nutritional well-being are not factored into evaluating the success of the program. If these are not benchmarks against which success is measured, then they will not factor into the program architecture. This is also how issues such as the instrumentalization of gender roles go unnoticed by observers and many donors.

If profit margins and repayment rates are the substance of evaluations, not only would there be no monitoring of empowerment, but also no monitoring of reduced empowerment. One can imagine if field workers are instructed to maintain repayment rates at 98 percent and then left to enforce repayment where unsavory methods would be more effective. When members of one Tanzania Cooperative were discussing the "Strengths, Weaknesses, Opportunities, Threats" (SWOT) analysis for their business plan, they noted that they did not engage in housebreaking as another major MFI operating in the same village did (Ryan, Field Work Observations, 2013). This is a large international organization, most would consider a charity and its website pulls at one’s philanthropic heart strings, yet on the ground the locals claim they are stealing chairs and tables and other household items to recoup debts for which repayment was late (Ryan, Field Work Observation, 2013). Is this a directive from the top of the organization? The prevalence of housebreaking would suggest that something in the structure of microfinance lends itself to such practices.

If job security for field workers is based on performance, and one's performance is determined by repayment rates, it is easy to see that any means necessary would be used to ensure that one's job performance is evaluated positively. If those in a position of greater power simply evaluate repayment rates, then it is easy to see how instrumentalization can occur so frequently. In the same way that such evaluations incentivise the instrumentalization of gender roles, they also dis-incentivise graduation rates. If no one is evaluating the development-based criteria, then we see program architecture reflect that.

Built into the financial services model are disincentives to encouraging development. From the need to maintain repayment rates to the financial benefits accrued by failed graduation and client retention, microfinance is not built to encourage development. For example, rather than discussing the development impact of education, the impact on repayment rates and retention are evaluated. As education programs have fallen by the wayside, it is notable that repayment rates have been maintained by instrumentalized gender roles and retention has been maintained by the use of loans for consumption purposes. Yet, a discussion about the relationship between evaluation criteria and the practice of microfinance would be damaging to an industry that has a vested interest in maintaining a public perception of being involved in 'development.'

The transition from an initiative rooted in development to one in which profit motive influenced program architecture and evaluation went largely unnoticed by those donating to the industry. It went largely unnoticed or ignored by the literature devoted to examining microfinance. The program evaluation did not explore the extent to which women were empowered, rather it focused on repayment rates, obscuring the entrenchment of existing gender roles. Part of this devolution involved a withering away of education investment and activity, despite a consensus that education is beneficial. The emphasis on repayment went beyond cultivating gender roles to instrumentalizing them to ensure repayment. Microfinance as it is currently practiced is about the provision of financial services and not development.

6.3 Imagining Microfinance as if Development "Mattered"

If microfinance was about development, what would it look like? Any organization working towards development should have obsoletion as its goal. A focus on the graduation, not the retention of clients is central to this approach. The current 10 to 15 years of microfinance participation to become self-reliant (Afrin, Islam, Ahmed, 2011, 11) is unacceptable. Programs should be geared so that the participants are supported through the program in a multifaceted manner. There are a number of areas which hold potential for increasing graduation rates:

1. Transformatory Interventions

One of the success stories of the Tanzanian Cooperatives examined in this project was a lady who is involved in five livelihoods and also acted as a peer educator for health and other development initiatives. She was heavily involved with the projects supported by the NGO that also supports the Tanzanian Cooperatives and acts as a liaison between the NGO and the community. During our survey work, she came out to a barbeque that was held at an outdoor bar after dark. She and I were the only females in attendance and I mentioned to one of the field workers the novelty of a woman out without her husband after dark, asking what her husband thought of it. The field worker commented that when the programs started and this woman initially became involved, her husband was a little uncomfortable and had to be cajoled by the male field workers but now he "doesn't mind at all" and his wife has a remarkable level of independence (Ryan, Field Work Observation, 2013). That the field workers had the sensitivity to subtly intervene in this regard had changed how her husband responded to her attending a wide variety of events and activities. Perhaps the human power is not available to individually intervene in the perception of acceptable gender based behaviour for every microfinance recipient but transformatory interventions can take many forms and a program geared towards development would include such initiatives. Educational interventions to address gender roles were also frequently requested in focus group discussions with borrowers (Ryan, 2013).

2. Education

Frisancho and Valdivia (2006, 18) and Afrin, Islam and Ahmed (2010, 31) both note the importance of baseline education and literacy for the success of the borrowers. Holvoet (2006) focuses on the importance of transformatory and experiential education for success and empowerment. Education has the power to reduce inequality (Rudra, 2008, 67), increase business success (Kessy and Temu, 2010, 103-105) and reduce indebtedness (Schicks, 2013, 315). The demand for education is high and impacts entrepreneurial success. Education must be provided either as a public good by the government or by development organizations or microfinance institutions or all three. This is one of the biggest omissions of current microfinance practice.

3. Consumption

The use of loans for consumption smoothing is well documented and is a hindrance to graduation. There has to be another option for people living at the margins to feed their families than a high interest loan. While this sounds like a normative judgement that would make neoliberals uncomfortable, the problem is that if microfinance is intended to aid or facilitate development than consumption spending is a major obstacle that has to be addressed. While this is in direct conflict with the spirit of structural adjustment policies and the neoliberal ethos of development currently, a change is required given the ineffectiveness of the current methodology. Some observers say Conditional Cash Transfers are an effective method to both increase consumption and meet social goals such as immunization and school attendance (Bateman, 2010, 168).

4. Program Architecture

In order to develop businesses that are able to extract people from poverty and provide economic growth, the interest rates charged and the repayment plans need to be modified. Larger loans, lower interest rates, and longer repayment plans would allow for success stories beyond those involved in petty trading that can meet the repayment schedules. Bateman (2010) outlines a number of case studies in which cooperatives and national banks provided support to small and medium enterprises. Micro-enterprises are subsistence oriented and should be recognised as such. Livelihood training and initiatives require a development focus rather. A profit focus –as in profits for the MFI or development agency rather than the participants- such as the case of the "telephone ladies," does not lead people out of poverty. Rather, the businesses must have growth potential, if only to employ the individuals who are not entrepreneurially inclined who would not benefit from a business start-up loan. This requires a more comprehensive development plan than is currently practiced.

6.4 Conclusion

Microfinance evolved from a program that was meant to tame the ravages of the market into a program that exacerbated them. Yet, the provision of loans to poor people is not a bad thing in theory. People should have a right to a life in which they can plan for their future in both the short term and long term. Part of being able to do that is having access to capital to smooth consumption spending and enable “big ticket” purchases. Yet, in and of itself, capital will not lift people out of poverty, it just makes it somewhat more bearable. Development programs should recognise the shortcomings of microfinance; that where profit motive creeps in, development is edged out. Education, programs that aim to transform gender roles, alternative means to smooth consumption and development directed at small-medium enterprises all play a role in rounding out a development strategy of which microfinance could be a part. For those who are entrepreneurial, start-up capital, support, guidance and well developed infrastructure go a long way towards cultivating success. If development is truly the goal of microfinance, evaluations should be based on the extent to which development indicators are met, programs should be geared towards achieving those indicators, and unsuccessful aspects revised. It has been demonstrated that if the motivation is profit then the program architecture will evolve to reflect that. This will achieve profit and not development. It is time for the practice of microfinance to match the rhetoric and be part of a strategy that puts poverty and gender inequality in a museum.

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