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RETHINKING MICROFINANCE

LAN CAO*

That capital is one of the requirements of economic development is a relatively uncontroversial notion. Although it is now accepted that development certainly entails more than economic growth and should be understood within a framework of political and social institutions that promote basic human rights, it is also the case that economic growth and capital remain

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1 Development was once viewed through a narrow economic lens with an emphasis on GNP. See M. TODARO, ECONOMIC DEVELOPMENT 14 (7th ed. 2000) (stating that "prior to the 1970s, development was nearly always seen as an economic phenomenon . . . .").

relevant if not primary factors for the achievement of broad development objectives.

This Article has three objectives. First, it briefly discusses the basic economic focus of development, as explicated by Sir W. Arthur Lewis, a St. Lucian economist who won the Nobel Memorial Prize in Economics in 1979 for his contributions to the field of development economics. Lewis studied developing economies and asked the central question that still vexes development experts today: how to create the conditions that will allow the poor in developing countries to accumulate capital, whether through increased savings or increased access to credit. Second, it looks at how the basic economic growth model (that Lewis was concerned with) has been broadened in recent years to include non-economic factors. To this extent, the Article primarily relies on the works of Amartya Sen, also a noted economics Nobel laureate, who views development as freedom, encompassing not just state ratification of human rights but also an overall increase in human capacity, and those of the noted anthropologist Arjun Appadurai, who believes that increasing the voice of the poor is a needed development objective. Interestingly, both Sen and Appadurai understand that development understood in this way requires active engagement with the cultural realm—that is, addressing cultural norms that have a negative impact on development objectives. Third, the Article demonstrates that Lewis' focus on capital and economic growth and the broader development framework advocated by Sen and Appadurai are fully compatible. As such, the phenomenon of microfinance represents a perfect convergence of the two foci in that it is concerned with providing capital to the poor and in the process, furthers the objective of increasing their human capacity in ways that are compatible with the new emphasis on enhanced development objectives. With respect to this last point, the Article

will focus only on microfinance organizations3 that not only provide capital to the poor, but also insist on altering the very cultural norms that are detrimental to their development. In other words, such microfinance organizations adopt complementary efforts and are not merely standalone finance institutions with the standard focus on credit, financial efficiency, and financial performance.4 The Bangladesh Rural Advancement Committee ("BRAC"), for example, touts its belief that "credit alone has severe limitations as a development tool."5 Although borrowing and successfully repaying a loan can be an economic as well as psychological boost, "[c]redit is debt."6 The Grameen Bank and a few others, by contrast, condition the provision of credit on the commitment of borrowers to change the very cultural beliefs and behaviors that, however commonly subscribed, are not conducive to development outlook. These microfinance institutions adopt "a behavior-change approach to promoting financial literacy for microfinance clients."7 Because these organizations combine the three factors identified in this Article (development seen in economic terms, development seen through the lens of human freedom and capacity, and, as a result, development implicating a cultural framework), they will be the focus of the Article.

3 There is a tremendous diversity of microfinance institutions, and the few discussed in this Article represent but a small segment of the industry. See generally Roy Mersland et al., The Effect of Religion in Development Efforts—Evidence from the Microfinance Industry and a Research Agenda 6 (2011), available at http://www.rug.nl/gsg/Research-Conferences/EUMicrofinconf2011/Papers1 (under “Panel 9 Microfinance and NGOs,” click on “Roy Mersland [Doc]”) (discussing several microfinance organizations).

4 See NORMAN MACISAAC, CIDÁ, ASIA BRANCH, THE ROLE OF MICROCREDIT IN POVERTY REDUCTION AND PROMOTING GENDER EQUITY 19 (1997) (“Pressures to emphasize financial performance may lead to further exclusion of the poorest. Smaller loans are preferred by the poorest borrowers, but are also more costly to administer. Ultimately, the push for financial performance creates incentives for programs to increasingly filter out those at greatest risk of default and delinquency.”).

5 Id. at 20 (citing BRAC, BRAC AT 20, 1992).

6 Id. at 25.

1. ARTHUR LEWIS AND THE CORE ECONOMIC GROWTH MODEL

As I demonstrate below, capital and economic growth, which were core concerns for development economists such as Lewis, remain relevant today, despite, or rather, because of the expanded framework in which development is understood and measured. To put it bluntly and simply, development costs money, especially when it entails, as the new development paradigm asserts, the protection of human rights and the enhancement of human voice, capacity, and freedom—all factors beyond the nuts and bolts of gross national product ("GNP"). Under the traditional model within which Lewis operated, the conventional economic development question may be summarized thus: if a society is to achieve economic growth and move from one economic stage to the next, capital is needed, that is, capital accumulation and capital investment. One of the standard objectives of economic development is to create the conditions necessary for the creation of surplus capital and the conversion of surplus capital into investment. In his classic book, *Theory of Economic Growth*, Lewis emphasized the importance of economic growth and capital accumulation. 

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8 One intellectual strand of economic development posits that different countries typically go through historically similar stages of economic development. To put it simply, one implication of this view is that developing countries are at an early stage of development while developed countries are at a later stage. See generally ALEXANDER GERSHENKRON, ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE (1962) (endorsing the "linear stages" theory of economic development but at the same time acknowledging that countries such as Meiji Japan and Soviet Russia might skip several stages). Similarly, according to modernization theory, as epitomized by Rostow's classic treatise, *The Stages of Economic Growth*, development consists of five historically identifiable sequences: first, "the traditional society," organized around agrarian subsistence modes of production; second, "the preconditions for take-off," triggered by encounters with external forces; third, "the take-off," marked by industrial development and increased economic growth; fourth, "the drive to maturity" with a sustained level of economic productivity and greater linkages with the international economy; and finally, "the age of high mass-consumption," where consumption needs replace basic subsistence. See W.W. ROSTOW, THE STAGES OF ECONOMIC GROWTH: A NON-COMMUNIST MANIFESTO 4-16 (3d ed. 1990).

9 See W. Arthur Lewis, Economic Development with Unlimited Supplies of Labour, in PARADIGMS IN ECONOMIC DEVELOPMENT: CLASSIC PERSPECTIVES, CRITIQUES, AND REFLECTIONS 59, 68-72 (Rajani Kanth ed., 1994) [hereinafter Unlimited Supplies of Labour] (detailing the different stages of economic expansion and emphasizing the importance of reinvesting capitalist surplus to increase capital formation).
Indeed, as one commentator noted when analyzing Lewis' contribution, “Economic growth, the growth in per capita output, is identified as the linchpin of the development process.” Lewis understood that growth in per capita output is crucial to development, though, again, not necessarily sufficient. “It is possible that output may be growing, and yet that the mass of the people may be becoming poorer. We shall have to consider the relationship between the growth and the distribution of output, but our primary interest is in analyzing not distribution but growth.”

Lewis also understood that there was a correlation between capital and growth. “[I]nvestment is necessary to economic growth. From this it follows, in a passive sense, that saving is necessary to growth, because investment has to be matched by saving.”

And yet, saving is difficult to achieve, especially for those in developing countries. The reasons for this difficulty are discussed in his classic and highly influential article Economic Development with Unlimited Supplies of Labour, in which Lewis examined the causes of and solution to underdevelopment. It is important to note that Lewis’ theory emerged in the post-World War II era. At the time, development theory emphasized the severance of colonial ties “which were associated, somewhat erroneously, with the workings of the market and, consequently, placed major emphasis on the role of the state in the newly independent countries of the Third World.”

Lewis, however, took a decidedly different turn, away from the state-dominant path that prevailed at the time. At the heart of Lewis' theory is his observation that subsistence economies with unlimited supplies of labor are characteristically low-productivity,

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10 See W. Arthur Lewis, The Theory of Economic Growth 52 (1955) (identifying “willingness to save and invest productively” as one of the key factors for achieving economic growth).
12 Lewis, supra note 10, at 9.
13 Id. at 213-14.
14 See Lewis, Unlimited Supplies of Labour, supra note 9, at 59, 60.
Low-income economies. Low wages caused by unlimited labor present the most significant obstacle to economic development because, according to Lewis, they impede the very process that stimulates economic growth and capital accumulation. Because low wages mean no or little savings and no or little capital accumulation, Lewis' thesis on the root cause of underdevelopment has focused on one main question: how to induce an increase in domestic savings and hence increase capital accumulation. The solution, according to Lewis, lies in the ability of such economies to produce an accumulation of capital and to create a capitalist class with the capacity to engage in investment of capital surplus.

The reason the capitalist class features prominently in Lewis' theory is because it is the class that can transform capital surplus into capital investment. Capital surplus can be wasted and frittered away. Because the ninety-percent majority cannot save, and the remaining ten percent, which includes the traditional class of landlords, traders, and moneylenders, saves but does not productively invest, the class with the ability to "tempt capital into

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16 Lewis' theory, as elucidated in his two-sector surplus model, is that agrarian societies are typically saddled with a large surplus of labor. However, this initial disadvantage can be remedied if surplus labor is used to spur the development of an industrial sector. A similar approach is present in Hollis Chenery's "patterns of development" analysis, which views sectoral shifts as crucial to economic growth. Professor Chenery relied on several empirical studies to identify a pattern in the development process: shift from agricultural to industrial or manufacturing, change in consumer demands from basic necessities to more diverse goods and services, migration from rural to urban areas, decline in family size, etc. See generally Hollis Chenery, Structural Change and Development Policy (1979); Hollis Chenery et al., Industrialization and Growth: A Comparative Study (1986); Hollis Chenery & Moises Syrquin, Patterns of Development, 1950-1970 (1975).

17 Although surplus labor exists in all sectors of agrarian economies, this surplus is especially large in the subsistence as opposed to the capitalist sector. Because surplus labor in the subsistence sector, in turn, has a depressing effect on wages in the capitalist sector, the capitalist is able to take advantage of low wages by adding but a small margin above the minimum bottom to coax workers from the subsistence into the capitalist sector. The capitalist sector will draw laborers from the subsistence into the capitalist sector until the unlimited labor supply eventually disappears and the subsistence sector is supplanted by a more modern, more dynamic capitalist sector. See Lewis, Unlimited Supplies of Labour, supra note 9, at 60.

18 A capitalist sector develops by taking labor from a non-capitalist backward "subsistence" sector. At an early stage of development, there would be "unlimited" supplies of labor from the subsistence economy, which means that the capitalist sector can expand without the need to raise wages.
productive channels rather than into the building of monuments," is the capitalist class.

Although his model has come under attack, its identification of several strategic themes continues to inform the development debate with respect to such issues as rural underemployment, mobilization of surplus rural labor, economic growth, and capital accumulation. The questions Lewis asked and explored remain central to today's development issues. Indeed, at the heart of the debate is the role of capital in the economic development of poor countries. Central to the quest for economic growth is this riddle: how can poor countries faced with structural constraints and disadvantaged by a lack of capital effectively engage in the process of capital formation?

This question is especially relevant in the context of today's new development paradigm. In other words, if you have no money, how do you get the necessary money not just to generate growth (the emphasis in the old development paradigm) but also to pursue new, expanded development objectives?

19 See Lewis, Unlimited Supplies of Labour, supra note 9, at 72.
20 See Ranis, supra note 15, at 9-12 (noting the declining reliance on Lewis' model and, in addition to outlining common criticisms, noting that certain criticisms of the model are rooted in misunderstanding).
21 See Lewis, Unlimited Supplies of Labour, supra note 9, at 95-97.
22 See CAPITAL FORMATION AND ECONOMIC DEVELOPMENT (P. N. Rosenstein-Rodan ed., 1964) (surveying various aspects of the problems of capital formation and economic development); W. Arthur Lewis, THE PRINCIPLES OF ECONOMIC PLANNING 52 (Harper Torchbooks 1969) (1949) (stressing that "[i]nvestment must be matched by savings, either voluntary domestic savings or foreign savings . . . ."); Ragnar Nurkse, PROBLEMS OF CAPITAL FORMATION IN UNDERDEVELOPED COUNTRIES (1953) (generally emphasizing the role of savings and capital formation in economic development and, in proposing his theory of balanced growth, viewing development as a process that entails an expansion of market and production, both requiring capital and capital investment); see also AKHTAR Hossain & ANIS Chowdhury, MONETARY AND FINANCIAL POLICIES IN DEVELOPING COUNTRIES 26 (1996) (discussing Kaldor and Robinson's model of economic growth, which "rejects the classical notion that savings determine investment[,]" and arguing instead "that investment determines savings").
23 There are domestic and international constraints on development. Domestic constraints include institutional constraints such as government policies that are detrimental to economic growth or a country's resource endowment or low access to domestic capital. International constraints include lack of access to international capital or impediments that hinder international trade.
24 Clive Bell, Development Economics, in THE NEW PALGRAVE: A DICTIONARY OF ECONOMICS, VOL. 1 (1987), 818, 825 (defining and elaborating the "branch of applied economics" known as "development economics").
2. AN EXPANDED DEVELOPMENT MODEL

Amartya Sen eloquently made the case that development should be viewed holistically. For Sen, development means freedom and maximizing capabilities to participate freely in the political process, to satisfy hunger, to have access to social networks and connections, reliable information sources and structures. Similarly, anthropologist Arjun Appadurai calls this capacity “voice.” For Appadurai, alleviating poverty means working to strengthen the capacity of the poor to exercise their voice, not only because this capacity is tied to democratic principles of inclusion and participation but also because “[i]t is the only way in which the poor might find locally plausible ways to alter . . . the terms of recognition in any particular cultural regime.” Voice, in other words, is tied to “cultural capacity,” that

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25 See Amartya Sen, Development as Freedom (1999) (analyzing the nature of contemporary economic development from the perspective of human freedom); see also Amartya Sen, Choice, Welfare, and Measurement (1997) (exploring such topics as preference aggregation, welfare judgments, and social measurement).

26 To quote Sen directly, there are five distinct types of freedom:

These include (1) political freedoms, (2) economic facilities, (3) social opportunities, (4) transparency guarantees and (5) protective security. Each of these distinct types of rights and opportunities helps to advance the general capability of a person. They may also serve to complement each other. Public policy to foster human capabilities and substantive freedoms in general can work through the promotion of these distinct but interrelated instrumental freedoms . . . . In the view of ‘development as freedom,’ the instrumental freedoms link with each other and with the ends of enhancement of human freedom in general. While development analysis must, on the one hand, be concerned with objectives and aims that make these instrumental freedoms consequentially important, it must also take note of the empirical linkages that tie the distinct types of freedom together, strengthening their joint importance.

Sen, Development as Freedom, supra at 10.

27 See Arjun Appadurai, The Capacity to Aspire: Culture and the Terms of Recognition, in Culture and Public Action, 63, 66 (Vijayendra Rao & Michael Walton eds., 2004) (defining and elaborating the term “voice”). Using Hirschman’s framework laid out in his groundbreaking book, Albert O. Hirschman, Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States (1970), Appadurai argued that it is especially important in law and development to focus on increasing the capacity of the poor to have their voice heard. Exit is not an option for the world’s poor and loyalty is not clear-cut, leaving voice as the only viable and potentially powerful tool to alleviate poverty.

28 Appadurai, supra note 27, at 66. Appadurai’s “terms of recognition” refer to “the conditions and constraints under which the poor negotiate with the very norms that frame their social lives.” Id.
is, the capacity to "engage social, political, and economic issues in terms of ideologies, doctrines, and norms which are widely shared and credible, even by the rich and powerful." In this way, voice also affects what Appadurai calls the "capacity to aspire"—to express "wants, preferences, choices, and calculations."

From this perspective, development needs to increase the poor's voice and the poor's capacity to aspire, an objective that has been generally neglected by the predominant emphasis on capital accumulation and economic growth. The capacity to aspire, according to Appadurai, "is by definition an approach to culture, since capacities form parts of sets, and are always part of a local design of means and ends, values and strategies, experiences and tested insights."

Because "political cultures [can be] either forces for the reproduction or transformation of inequalities," increasing the poor's voice means addressing the dominant norms within the cultural context at issue. This means that when established norms muffle the capacity of the poor and other marginal groups to exercise "voice," part of the development objective has to be to find a way towards "achieving more effective poverty reduction through patterns of cultural change that . . . strengthen the voice of poorer groups . . . ." The very process of aspiration and contestation will "change the terms of recognition, indeed the cultural framework itself."

The discussion above shows that in both instances, development as understood by Sen and Appadurai requires an

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29 Id. at 66-67.
30 Id. at 67.
31 Id. Sir Arthur Lewis also referred to the problem of "limited horizons" in his classic book, Theory of Economic Growth, supra note 10, at 29 ("[W]ants are limited because the goods that one knows about and can be used are limited.").
32 "This obscurity has been especially costly for the poor, and in regard to development more generally." Appadurai, supra note 27, at 67.
33 Id. at 70.
34 Vijayendra Rao & Michael Walton, Culture and Public Action: Relationality, Equality of Agency, and Development, in CULTURE AND PUBLIC ACTION, supra note 27, at 26. See also Fernando Calderon & Alicia Szmucler, Political Culture and Development, in CULTURE AND PUBLIC ACTION, supra note 27, at 281 ("The political cultures that historically have been dominant in Latin America limit the development of people's and communities' capabilities . . . by emphasizing differences and by stigmatizing and lowering the other (whether poor, woman, indigenous, migrant, black, or mestizo.").
35 See Rao & Walton, supra note 34, at 27.
36 See Appadurai, supra note 27, at 67.
understanding of the "conditions and constraints under which the poor negotiate with the very norms that frame their social lives."37 As Appadurai observed, the poor are "frequently in a position where they are encouraged to subscribe to norms whose social effect is to further diminish their dignity, exacerbate their inequality, and deepen their lack of access to material goods and services."38 Norms that are problematic for poverty alleviation must be changed. As he notes in the Indian case, these norms take a number of forms: "some have to do with fate, luck, and rebirth; others have to do with the glorification of asceticism and material deprivation; yet others connect social deference to deference to divinity; yet others reduce major metaphysical assumptions to simple and rigid rules of etiquette which promise freedom from reprisal."39

The implications of Appadurai's "capabilities" paradigm and Sen's freedom paradigm are profound. Because development is redefined and focused on expanding people's substantive freedoms or capabilities to lead the lives they value, it zeroes in on an array of "functionings" such as health, literacy, education, and the freedoms of expression and association. As one commentator noted, "development covers the whole range of economic, cultural, social as well as civil and political rights,"40 each causally dependent on the other. For example, freedom of association is linked to economic development because the right to participate in decisions that affect their economic conditions is vital to the process of development.41

If broadly speaking, development is understood to mean enhancing living standards, "then efforts geared to development can hardly ignore the world of culture. Economic and social changes in pursuit of development can certainly influence positively or negatively the opportunities for cultural pursuits..."42 Thus, this understanding of development not only brings human rights but also norms and values into the basic law and

37 Id. at 66.
38 Id.
39 Id.
40 Brodnig, supra note 2, at 10.
41 Id.
development framework. Indeed, development as freedom—freedom to maximize one's capabilities, freedom to lead the lives one values—means the question of culture must be a central part of the inquiry. Sen is quite clear on this question: "informed and unregimented formation of our values requires openness of communication and arguments" and cannot be left for "the elite 'guardians' of tradition to settle." Development thus includes a strong cultural component, which in turn includes "people being allowed to decide freely what traditions they wish or not wish to follow," rather than being forced to "obey the decisions by religious or secular authorities who enforce traditions—real or imagined." There is now plenty of evidence to suggest that "[c]ultural influences can make a major difference to work ethics, responsible conduct, spirited motivation, dynamic management, entrepreneurial initiatives, willingness to take risks, and a variety of other aspects of human behavior which can be critical to economic success."

It is quite clear then that development is both an economic and a cultural process. From an economic standpoint, development as Lewis explained must address the twin issues of capital formation and capital investment. From a broader, more holistic standpoint, development as Sen and Appadurai argue, must involve more than economics, though economics remain important if for no other reason than to finance broad, wide-ranging development goals. Indeed, the author of an empirical study of a select number of Asian countries concluded that "[a]lthough money is not everything, it is essential. In the subtle and complex interplay of economics, politics, culture, law and institutions in determining rights performance, what matters most is wealth. Put bluntly if

43 See Peter Evans, Collective Capabilities, Culture, and Amartya Sen's Development as Freedom, 37 STUD. COMP. INT'L DEV. 54 (2002) (exploring "the more challenging implications of Sen's" work).
44 SEN, DEVELOPMENT AS FREEDOM, supra note 25, at 152.
45 Id. at 31.
46 Id. at 32.
47 Amartya Sen, How Does Culture Matter?, in CULTURE AND PUBLIC ACTION, supra note 27, at 40. See also Timur Kuran, Cultural Obstacles to Economic Development, in CULTURE AND PUBLIC ACTION, supra note 27, at 120 ("Some elements of any given culture are clearly harmful to development; others are manifestly beneficial. Some promote intercommunal mistrust and hatred; others fuel peaceful interactions. The persistence of a cultural trait may enrich certain groups while keeping others impoverished . . . ").
somewhat too simply, if you want better performance across a range of rights and indicators of human wellbeing, *show me the money*.”\textsuperscript{48} Growth can enhance the capacity for development because “increased incomes will increase the range of choices and capabilities enjoyed by households and governments.”\textsuperscript{49}

But growth alone is not sufficient because development requires capital accumulation as well as a change in cultural norms, as both Sen and Appadurai discuss. Cultural norms are intertwined with capital and, to increase capital, cultural norms must be engaged. But separate and apart from capital and norms that promote capital accumulation, there is also the issue of cultural norms that are at odds with those that are in accord with broad development objectives. As I explained at the beginning of the Article, microfinance organizations are notable in today’s development context precisely because they embody all three principles that are vital to the enhanced development objectives of development organizations. First, microfinance organizations help the poor in developing countries gain access to capital through savings and credit. From a traditional development standpoint, such access is primarily about capital accumulation and economic growth. Second, microfinance loans also empower the poor. For Appadurai, capital—credit and more specifically savings—is critical from a development perspective not only for economic reasons but also for the “moral discipline” inherent in the effort. “In a simple formula: without poor women joining together, there can be no savings. Without savings, there can be no community building . . . . Thus, the act of savings is an ethical principle, which forms the practical and moral core of the politics of patience, since it does not generate large resources quickly.”\textsuperscript{50} Third, the provision of microfinance, then, increasingly signifies the convergence of two significant principles in development: the need for access to capital, long identified by economists such as Arthur Lewis, and the recent expansion of development objectives, favored by Sen and Appadurai.


\textsuperscript{50} Appadurai, *supra* note 27, at 74.
As a result, microfinance organizations increasingly supplement their financial mission with a cultural agenda. Many not only provide credit, assuming the borrowers exhibit the organizations' standards of creditworthiness, but also condition the provision of credit on the borrowers' promise to alter certain behaviors deemed culturally problematic. For these microcredit organizations, conditionality is demanded but is grounded in non-economic, cultural factors.

Take the Grameen Bank as an example. Most of Grameen's loans go to women. First and foremost, empowering women economically so they have access to capital and perhaps a degree of economic independence is in and of itself a radical concept with deep ramifications, given the subordinate and dependent position of women throughout the world. The mere act of lending to women is itself an act towards cultural transformation. "[T]he predominance of women in borrowing groups has raised the prospect that women, who are often the objects of oppression, might be empowered vis-à-vis men in general and their husbands in particular." Indeed, discrimination against women has been evidenced in the credit market. Research has shown that credit is crucial to economic development and that the credit market is as


52 Brian Fikkert, Christian Microfinance: Which Way Now?, available at www.gordon.edu/ace/fikkert.doc. Note, however, that studies have conflicted on this point. A study of women in Bangladesh showed that sixty-three percent of women borrowers did not completely exercise control over the loans taken in their names, as husbands retained considerable influence over decisionmaking. Yet, "even this finding does not undermine the possibility that women's bargaining power within the household was increased, and many observers believe there is considerable evidence of women's empowerment." Id. at 29. Indeed, even studies finding that women only have partial control over their microloans or turn control over to male members of the family fail to demonstrate an absence of benefits for the women involved. "As part of a broader effort to raise awareness and mobilize women, credit could play an important role as an 'entry point' to strengthen women's networks and mobility, increase their knowledge and self-confidence and increase their status in the family." MACISAAC, supra note 4, at 5.
important as the equity market. Yet, in a region in India, for example, microlending has been systematically denied to Muslims. Interestingly, this denial is not due to extreme Hindu nationalism but rather to a massive campaign organized by Muslim *anjumans* (community organizations) to deny credit to Muslim women in Karnataka. The *anjumans* are centers of patriarchal power authority, and the borrowers are mostly poor women. Although a microbank in the area has maintained a virtually 100 percent repayment rate from its Muslim borrowers, in recent years repayment has been almost zero because of "non-repayment directives by anjumans." Despite the *anjumans’* claims that loans do not have to be repaid because the interest on them is un-Islamic, they have not targeted loans made to Muslim businessmen. As one commentator observed, "In contravention of basic freedoms under the law and Constitution, the anjumans claim the right to control the behaviour of any Muslim woman, and the authority to punish all Muslim female borrowers ignoring their illegal directives."

It is without doubt then that the very decision to focus on lending to women is itself a bold decision that in some instances goes against local cultural norms. To that extent, microfinance organizations that lend primarily to women are already engaging and challenging local cultural norms that discourage female financial independence. This is so even if, as is often the case, microfinancing alone without more cannot transform long-standing cultural norms. "Change in gender equity and economic status takes place over the long term, and is seldom a linear process. ‘Snap-shots’ may be misleading."  

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55 Id.

56 MACISAAC, *supra* note 4, at 5.
The Grameen Bank made the decision to lend to women because it recognizes that lending to women has positive development effects. Grameen believes that women are considered the best group to lend to, according to founder Mohammed Yunus, because “[g]iven the opportunity to fight against poverty and hunger, women turn out to be natural and better fighters than men.” Although the Grameen Bank initially pursued both men and women as clients, the Bank shifted its focus to women because “women used household resources more selflessly, resulting in a greater increase in nutritional levels, health, and income of the female borrowers’ families than those of the male borrowers.” In the Grameen Bank’s own words:

Conventional banks focus on men, Grameen gives high priority to women. [Ninety-seven] per cent of Grameen Bank’s borrowers are women. Grameen Bank works to raise the status of poor women in their families by giving them ownership of assets. It makes sure that the ownership of the houses built with Grameen Bank loans remain with the borrowers, i.e., the women.

The provision of credit empowers women in particular but also empowers the poor in general by expanding their universe in many ways. The obvious one is economics. As Nicholas Kristof observed, microfinance creates alternatives for poor borrowers who would have to finance needed expenditures—to pay for an illness or a wedding, or to grow a business—by turning to money-

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57 Rashmi Dyal-Chand, Reflections in a Distant Mirror: Why the West Has Misperceived the Grameen Bank’s Vision of Microcredit, 41 Stan. J. Int’l L. 217, 262 (2005) (internal quotation marks omitted) (quoting MUHAMMAD YUNUS, BANKER TO THE POOR: MICRO-LENDING AND THE BATTLE AGAINST WORLD POVERTY 40-41 (1999)). See also MACISAAC, supra note 4, at 7 (“A large number of these programs have focused on supporting women, who bear the brunt of poverty and have been left out of most poverty reduction programs in the past. In many programs, women make up as many as 90 per cent of borrowers. Lending to women is also assumed to result in a greater multiplier effect because women pass on the benefits to children, through increased spending on the household, education and nutrition.”).

58 Dyal-Chand, supra note 57, at 262.

lenders who charge high interest for loans.60 Furthermore, that microfinance organizations charge lower interest means that their presence by itself has the effect of "undermining whatever power these moneylenders wield over the poor."61 The poor who under normal economic circumstances would not be able to borrow would be able to do so under the different considerations used by microfinance institutions. The Grameen Bank, for example, makes microloans conditioned not on the financial creditworthiness of the borrower (most have no credit history and no collateral), but rather on the borrower’s social capital or social collateral. The bank makes loans not to an individual but to a circle of five borrowers. Lending circles consist of what is called "2, 2, 1 loans.” The bank lends to a circle of five people, typically women. It grants a loan to the first borrower. If the first borrower repays the loan, the second individual in the circle is entitled to a loan. Those who received a loan are responsible, by their repayment or non-repayment, for whether or not others are qualified to borrow. Grameen Bank boasts a high success rate because it uses peer pressure and a sense of social obligation to ensure repayment.62

Many microfinance institutions also have a savings component that supplements the credit side of their organization. MYRADA of India emphasizes savings over credit as it discourages the accumulation of debt. Some institute compulsory savings as a precondition to credit because savings is viewed as an end in itself; the Association for Social Advancement ("ASA") requires members to save for twelve weeks before they can borrow.63 Referring to the savings components of microfinance, Appadurai noted, for example, the following: "[C]reating informal savings groups among the poor . . . is a worldwide technique for improving financial citizenship for the urban and rural poor throughout the world . . . . [S]avings has a profound ideological,

61 Fikkert, supra note 52, at 28.
63 MACISAAC, supra note 4, at 26.
even salvational status." 64 Until 1996, Grameen Bank had a policy of restricting access to savings, again in order to encourage savings as "[a]ccumulation of savings is often a good measure of decreased vulnerability." 65

Whether through credit or savings, microfinance enhances the poor's access to capital. This increase in their economic standing creates economic as well as other less obvious yet equally important benefits for borrowers. "Bringing low-income persons—especially women—into groups for regular meetings and giving them access to a financial system clearly appears to reduce isolation from others and from 'the system.'" 66 As observed, "the creation of a regular forum at which large numbers of poor women can meet and talk represents a breakthrough in the social norms of rural Bangladesh." 67 Indeed, financial considerations, whether credit, savings, or income, are but one component of a broader framework. Other factors—what Appadurai called voice and capacity—such as "enhancing women's visibility and enabling them to voice their concerns may be a key means to achieve long-term impact in raising women's status and improving gender equity. While women are occupying non-traditional roles and occupations, for example, they are challenging accepted norms and breaking the path for future generations." 68 Being part of microfinance programs, going to the requisite weekly members' meetings, and generally participating in lending circles increase their mobility and establish or strengthen networks especially among women who had previously not had much external contact. 69 This is especially important in rural areas where women's mobility is limited. 70

64 Appadurai, supra note 27, at 74.
65 MacIsaac, supra note 4, at 26.
66 Fikkert, supra note 52, at 29.
67 Id. (internal quotation marks omitted) (citing David Hulme & Paul Mosely, Finance Against Poverty 125-28 (1996)).
68 MacIsaac, supra note 4, at 5.
69 These are some of the factors that constitute indicators of women's empowerment in Bangladesh: sense of self, increased mobility, greater economic security, enhanced status and decisionmaking power in the household, effective interaction in the public sphere, participation in non-family groups. See id. at 16 (describing the indicators of the increasing role and status of women in Bangladesh).
70 See id. at 7 (stating that the mobility provided by lending circles affords women the opportunity to meet with each other outside of their homes and
But what is arguably most uniquely distinctive and interesting about microfinance organizations such as the Grameen Bank and a growing number of other microfinance organizations is the fact that their loan-making agenda is supplemented by a campaign to shore up the community's cultural foundation.\textsuperscript{71} In the section below, I discuss those microfinance organizations that affirmatively seek to change culturally-based attitudes that are antithetical to broad development principles. Lending is accompanied by what might credibly be called a general consciousness-raising agenda as well as education more specifically aimed at altering clients' attitudes about money, budgeting, saving, and managing.

3. MICROFINANCE AND BACKGROUND NORMS

I start by defining and clarifying the term "microfinance" and then proceed to focus on the relationship between certain microfinance institutions and background norms and values. The literature sometimes uses "microenterprise development," "microfinance," and "microcredit" interchangeably. The growing consensus, however, is that "microenterprise development" refers to the use of financial strategies (savings, credit, insurance) and non-financial strategies (business training) to help the poor start small businesses. Microfinance refers to the same strategies as above, but not just to help the poor start businesses, but also to help them cope with the full range of economic needs that they are faced with: emergencies, daily needs, household investments, and education. Microcredit is a subset of microfinance as it refers only to the provision of loans to the poor.\textsuperscript{72}


\textsuperscript{72} See Fikkert, supra note 52, at 4 (explaining that while the term 'microfinance' addresses the full range of household needs, the term 'microcredit' only refers to the provision of loans to poor borrowers).
Microfinance organizations may serve a discrete function—providing small loans for discrete purposes. As already noted, "successful ones tend to incorporate education sessions and skills-building workshops to help change gender norms, improve communication in relationships and empower women in other ways."\textsuperscript{73} Borrowers who apply for credit from microfinance institutions such as the Grameen Bank typically do not have to produce conventional proof of creditworthiness. Instead, the Grameen framework imposes certain commitments on the part of borrowers who must agree to be part of a consciousness-raising regime. For example, the so-called "Sixteen Decisions" program requires Grameen borrowers to commit to essentially changing cultural habits, in accordance with its pledge to help people in poor countries cross the poverty line economically and also to live "a life of dignity and honour."\textsuperscript{74} The bank believes that although "credit is an efficient instrument that can quickly augment income, poverty has many dimensions,"\textsuperscript{75} which includes social and political consciousness. Grameen Bank's Sixteen Decisions reflect the bank's effort to address the cultural and social elements of poverty. Hence, at weekly meetings, borrowers agree to follow and advance these principles of Grameen Bank: "discipline, unity, courage and hard work."\textsuperscript{76} The purpose of the Sixteen Decisions is to encourage sound financial discipline as well as to instill in borrowers certain social goals.\textsuperscript{77} Borrowers are encouraged to memorize and recite the Sixteen Decisions, some of which deal with mundane subjects such as sanitation ("we shall build and use

\textsuperscript{73} WORLD HEALTH ORG., PROMOTING GENDER EQUALITY TO PREVENT VIOLENCE AGAINST WOMEN 7 (2009), available at http://whqlibdoc.who.int/publications/2009/9789241597883_eng.pdf.

\textsuperscript{74} Muhammad Yunus, \textit{Alleviation of Poverty is a Matter of Will}, House Comm. On Int'l Relations, June 27, 1995 (testimony of Professor Muhammad Yunus, Managing Director, Grameen Bank), at 48.

\textsuperscript{75} Id. at 51.


pit latrines"), nutrition ("we shall grow vegetables all year round"), as well as more culturally sensitive topics.78 Examples of the latter include the pledge to educate their children, not take any dowry at sons' weddings and not give any dowry at their daughters' weddings, not practice child marriage,79 and not overspend on weddings and funerals.80 Interestingly, the last point about not overspending on weddings and funerals echoes a fundamental concern of development economists who saw capital formation and capital investment (not non-investment spending) as paramount to economic development. Overall, it is fair to characterize the underlying principle behind the Sixteen Decisions as one that emphasizes nurturing pride81 and discipline,82 such as "deferral of selfish gratification, by saving and educating children."

South Africa's Intervention with Microfinance for AIDS and Gender Equity ("IMAGE") is another microfinance institution that links the provision of loans with a broader campaign to empower women by combining "financial services with training and skills-building sessions on HIV prevention, gender norms, cultural beliefs, communication and intimate partner violence."84 IMAGE is notable for its decision to reach out to the wider community, using "education and skills-building sessions that address a variety of social issues and engage men and boys."85 Thus, the organization emphasizes changing norms subscribed to not only by women but also by men. IMAGE makes a point of including men and boys in their microfinance programs and their accompanying consciousness-raising agenda in order to "change

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79 See 16 Decisions, supra note 76.
80 See Tinker, supra note 77 (stating that the 16 Decisions seek to promote social goals).
81 See Tempest, supra note 78 ("T[he bottom line of the 16 Decisions and the Grameen Bank is pride.").
83 Id. at 421.
84 WORLD HEALTH ORG., supra note 73, at 7.
85 Id. at 8.
the attitudes of whole communities, making them more receptive to female empowerment ...."86 As IMAGE itself recognizes:

Disagreements over the control of newly acquired assets and earnings, combined with women's changing attitudes towards traditional gender roles, improved social support and greater confidence to defend themselves against male authority, sometimes led to marital conflicts and violence against women perpetrated by their partners. Increases in violence following participation in credit programmes have . . . been reported . . . at least in the initial stages of membership.87

Including men in the process of cultural change is thus important for minimizing the possibility of backlash.

Furthermore, including men in the cultural change project may also be important because a change in traditional gender roles at home is often needed to ensure that the provision of credit for women works as planned. For example, unless men shift out of their traditional paradigm and share household work, "microcredit for income generation will likely increase women's, and in some cases children's, workload, especially girls who share domestic responsibilities and are less likely to be attending school."88

Men's attitudes matter as well. Studies found that two years after completing the program, participants in IMAGE reported fifty-five percent fewer acts of violence by their intimate partners in the previous twelve months than did members of a control group. Controlling behavior by partners also decreased, and participants reported that they were more likely after enrolling in the program than before to disagree with statements that condone physical and sexual violence.89

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86 Id.
87 Id. (internal references omitted).
88 MACISAAC, supra note 4, at 13.
89 See WORLD HEALTH ORG., supra note 73 (reporting on the success of "community interventions to reduce gender" inequality). Interviews with participants of the Bangladesh Rural Advancement Committee ("BRAC") also revealed that they were less likely to have been beaten by their partners as those who did not participate in such programs. Id. at 7-8.
Such results can be attributed to changes in economic circumstances as well as in attitudes. Women's standing in the household is enhanced when they contribute to the household in economically tangible ways. Additionally, increased interaction with the outside world also means greater visibility and exposure, including exposure of violence inside the home. Perhaps more surprisingly, however, is the finding that these programs benefit the entire community, not just those who participate. For example, intimate partner violence is thirty percent lower for non-participating women living in villages with microfinance organizations than non-participating women in villages without microfinance programs. This suggests that the very presence of a microfinance organization creates a positive diffusion effect that radiates outward from participants to include even non-participants.

A few other microfinance organizations, particularly Christian development organizations, are also involved in the inculcation of values premised on the notion that "religious beliefs provide moral guidance and influence people's will to improve their lives." For example, the Fellowship of Confessing Anglicans ("FCA") in the United Kingdom and Ireland, which is the spiritual home for Orthodox and Mainstream Anglicans, has founded the Anglican International Development for Relief and Change ("AID") fund to partner with churches around the world to improve education, healthcare, job creation and support economic development through microfinance. When Southern Sudan voted for independence in 2011, after two decades of war between the Muslim majority in the north and the non-Muslim, non-Arabic speaking Sudanese in the south, AID, in conjunction with the

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90 Id. at 8 (explaining that the ability of income-producing women to bring home a resource that benefited their partners has helped protect them from domestic violence).
91 Id.
Episcopal Church of Sudan, set up Manna Microfinance, a microfinance entity to help poor Anglican Christians in southern Sudan. As the deputy governor of the Bank of Sudan observed when he welcomed the launch of Manna Microfinance in March 2011, "Why do we want to be independent? . . . We want to organize our own administration, we want to develop ourselves and be part of the world of nations. But to be independent we must be able to work to feed ourselves . . . ."\(^{95}\)

The need for capital, as identified by Lewis, thus remains paramount in today's development debate. Recipients of Manna's loans are small retail and agricultural businesses and individuals offering manual services such as tailoring and embroidery. Project-finance is provided in the form of a loan, plus interest.

But because it recognizes that the inculcation of development-prone values is important to the success of a microfinance venture, Manna adopts a multi-pronged approach that includes not only finance and economics, but also culture and attitudes. Manna works to identify potential micro-entrepreneurs within churches and train existing ones in business and financial management, with an emphasis on how to save and how to manage loan repayments. Manna Microfinance officers provide Church support via self-help groups that meet regularly; they also provide mentoring. Bishop Enoch Tombe emphasized that "what was needed was also an attitude and culture change,"\(^{96}\) for example, tribal culture that looked down on market transactions. Other bishops observed that "the church would make a vital contribution in helping to change people's attitudes. 'Real and true development happens when people's attitudes change.'"\(^{97}\)

Other microfinance organizations concentrate on tying microloans with financial education designed to help clients understand the basics of loan repayments, interest calculation, and the terms of a loan.\(^{98}\) Credito Con Educacion Rural (CRECER) and Pro Mujer in

\(^{94}\) Manna Microfinance Institution is owned by the Episcopal Church of Sudan and managed by the Bridge Foundation, India, with the support and funding of AID. The Bridge Foundation has more than twenty-five years of experience in this area, and approximately ninety-five percent of its loans are fully repaid. See Manna Microfinance Southern Sudan, supra note 93.

\(^{95}\) Manna Microfinance Launched in Sudan, supra note 93.

\(^{96}\) Id.

\(^{97}\) Id.

\(^{98}\) See Gray et al., supra note 7, at 2 ("When financial education is developed with input from the participants themselves, it can improve their knowledge of..."
Bolivia; Taytay Sa Kauswagan, Incorporated (TSKI) in the Philippines; and Sarvodaya Economic Enterprise Development Services (SEEDS) in Sri Lanka, for example, provide a host of services to poor clients including credit, savings, insurance, education, and health, though each adopts its own particular mix of product and service. These organizations provide financial education to clients in various formats—some during the scheduled credit meetings, others at focused discussion groups or separately scheduled workshops—emphasizing debt management, savings and budgeting. Sometimes, radio and television were also used to provide financial information. SEEDS, for example, reported that after financial education sessions, there was an "attitude change" in their clients, resulting in a positive change from seventy-four to eighty-five percent of clients who reported that it was important to save. Indeed, CRECER, Pro Mujer and SEEDS reported that clients who took the financial education course understood the importance of saving, budgeting and managing money; learned about savings strategies; and accordingly were able to set aside some of their earnings towards savings.

This result has been confirmed by other studies. A randomized study conducted by the Sewa Bank ("Self-Employed Women's Association") in Gujarat, India, revealed that the women who were randomly chosen to receive financial education took out twice as many loans as those who did not, and more importantly, were also more likely to take out loans in pursuit of sound financial objectives, such as home purchase, business expansion, or financing of their children's education. Similarly, a six-month midpoint study (of a full-year evaluation) by Freedom from Hunger of adolescent girls in West Bengal, India, found that girls who were randomly selected to receive financial education were
more motivated to save, more confident about their ability to manage money, and in fact saved more often when compared to the control groups who received no education. “Overall, the findings show that financial education took the intervention groups one step closer to attitude- and behavior-change.” Indeed, it is noteworthy that the microfinance institutions described all rely on education to instill a norm of saving and other positive development values in their clients because they realize that capital formation is often not just an economic but also a cultural enterprise.

4. CONCLUSION

Given the recent emphasis in law and development circles on a more holistic approach to development, one should remember that the conventional economics-oriented framework of development with its traditional emphasis on economic growth remains necessary and relevant. Whether development is framed in terms of human rights, capacity, or freedom, governments need money to make development objectives a reality. And the poor in developing countries need access to capital credit and savings to improve their basic standards of living. With respect to the latter, microfinance organizations perform a crucial function and may be viewed as fitting within the traditional economic orientation of development.

At the same time, unlike large-scale, splashy projects underwritten by big development institutions such as the World Bank, those run by microfinance organizations are, aptly and simply put, micro. They are small-scale projects that directly involve the poor who seek capital to meet an objective they themselves have chosen. As such, they are economic in orientation but are more centered on improving the lives of the poor who are active stakeholders and participants in the venture. Thus,

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103 Id. at 8.
although they do fit within the conventional economic paradigm of development, they are also part of a new development thinking focused on "incorporating the human dimension into development planning . . . ." As some have observed, "[a] human development strategy must be decentralized, to involve community participation and self-reliance." Microfinance organizations fall comfortably within this development strategy.

Furthermore, many microfinance organizations increasingly reflect a more holistic understanding of development in which development is viewed in freedom terms, as exhorted by Sen, and in capacity and voice-enhancing terms, as exhorted by Appadurai. Both approaches entail active engagement with the cultural realm—beliefs, attitudes, and preferences—to the extent that they interfere with the objectives of enhancing freedom, capacity, and voice. As this Article has shown, these microfinance organizations have taken the extra steps to supplement their financial agenda with a cultural transformation project to help poor borrowers adopt new attitudes and behaviors. These transformative projects aim to change financial behavior in an economically-focused manner, for example, to discourage overspending or encourage saving. But many also aim to change behavior in a broader way, that is, to reject violence, especially in personal relationships; to promote a healthy self-image, especially for young girls and women; and to refuse to perpetuate problematic practices such as child dowry or limitations on education for girls, for example. As should be clear, these practices all have the effect of constricting one's freedom, capacity, and voice.

To the extent that some microfinance organizations undertake to alter these attitudes and behaviors, they represent a convergence of the two models of development, discussed in this Article—economic and cultural. Such convergence accords with the trend in development to bring to the forefront the human dimension of development as increasingly espoused by the development and human rights community.

105 MAHBUB UL HAQ, REFLECTIONS ON HUMAN DEVELOPMENT 5 (1995) (contemplating a world in which development plans concerned people rather than production).
106 Id. at 6.