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Women and Financialization: Microcredit, Institutional Investors, and MFIs

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Abstract: My aim in this paper is to show the way in which microfinance acquires the face of women. While micro-finance institutions (MFIs) act under the flag of "serving the common good," there are still the interests of institutional investors behind them, who are looking to profit through international financial circuits. On one hand, microfinance is part of financial innovation in the global financial circuits. On the other hand, women's bancarization inserts them into the labor market, hence into the financial circuits. MFIs become part of the shadow financial system. When debating microcredit's profitability from a gender perspective, I note both the financial effectiveness of microcredits and the role of women as highly profitable economic agents. Is there a relation between financialization and microcredit? Is microcredit an achievement that will improve the economic, political, and social environment for women? Why is it that women's bancarization has been a priority of international financial organizations? Microcredit with a woman's face confirms the suggested hypotheses. Their empowerment through microcredit is a new way for financial investors to obtain higher profits through MFIs. The highest interest rates that MFIs charges are an expression of financialization by institutional investors.

Keywords: financialization, institutional investors, microfinance institutions, women

JEL Classification Codes: D0, G15, G20, J16, O12

As part of the financialization process, the shadow financial system has emerged around the world in different ways. It is not only part of the official dialogue within the macroeconomic field, but also within the microcredit sphere. Micro-finance

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institutions (MFIs) are part of the financial process, especially when it comes to addressing the poor in developing countries. Most microcredits are given to women who need to improve their income, and they have been portrayed by the dominant ideology as a mechanism for women's empowerment.[1] Microcredit with a woman's face is one of the most important metamorphoses that has come from the structural changes in financial and labor-market circuits since the late 1970s. Microcredit not only empowers women, but also leads them to becoming economically profitable subjects in microfinance services. At the same time, the profit obtained by MFIs is part of the financialization in international financial circuits. Many MFIs depend on, or are part of, big banks.

Small Loans with a Woman's Face

When focusing on the analysis of microcredit, the high profitability of small loans, granted by MFIs at an international level, becomes noticeable (Rosenberg et al. 2013). Reducing poverty and improving the conditions of families are two elements of the normative discourse that highlights the role of women as economic agents through the access to funding granted by MFIs (Bateman and Ha-Jong 2012). Therefore, microcredit is the ideal way to obtain funding for starting small businesses. It is ideal to such an extent that even in the UN Millennium Development Goals the concepts of empowerment, women entrepreneurs, and microcredit are used to refer to women as economic agents. Hence, there is a close relation between empowerment, women entrepreneurs, and microcredit within the economic sphere of macro-economy, despite the fact that a great amount of microcredit is not created to generate new businesses, but to power daily consumption.

There has been a transition, during the last four decades, from regulated to deregulated financial systems. This change has brought forth the integration of financial institutions into global circuits. The rapacious quest for profit and stock price appreciation indicative of "money manager capitalism" (Minsky [1986] 2008) has drawn money-center banks, giant pension funds, and other institutions into the microcredit sphere. As the relative importance of state and development banks has waned, microcredit operations are increasingly subject to the logic and imperatives of rentier capitalism (Keynes [1936] 1964).

In most Latin American and Asian countries, institutional financial intermediaries have obtained great profits from MFIs (Girón 2012a). Through international financial markets, MFIs channeled liquidity toward funding small subsidiary loans from banking corporations that are classified as "too big to fail, too big to rescue." These corporations have been favored by financial regulation from the state and from international financial agencies, such as the International Monetary

[1] Empowerment, from a gender perspective, consists of transforming women into economic agents — capable beings with "freedom to choose" not only how to use credit, but also to engage in productive projects as entrepreneurs in administrative, social, and political decision-making position.

Fund (IMF), the World Bank, the Bank for International Settlements (BIS 2013),[2] and the central banks. According to the latter, the empowerment of women as entrepreneurs through microcredit is untenable. In a world of "money manager capitalism,"[3] in which Minsky (Wray 2011) discerned the greed of financial institutions and in which financialization has become the norm, it can hardly be said that microcredit is the path to empowering women who live in an austere environment.

Women are candidates for microcredit since it is the simplest way to include them in both labor markets and financial circuits, by making use of the important commitment they have to their families and their jobs. Therefore, the need for women to be income providers to their families brings about the transformation of societies by breaking traditional gender norms not only in managing money, but also in combatting gender discrimination both within the family and the workplace. NGOs, having recently emerged as a shadow of the state, offer credit and employment, as well as shape the production system in many societies (Karim 2011). The development of credit systems by NGOs started with the weakening of the state in the spheres of production and circulation. It was during the 1980s and 1990s that this model became surprisingly preeminent and influential when it came to making decisions related to economic policy. Under this pressure, patriarchal society began to break and the prerogative of development acquired great importance. In the 1960s, development was transformed into an organic process that aimed to raise the quality of life in a developing project to combat poverty on a global level. Microcredit, as referred to in the official discourse, assists this new model in eradicating poverty. Therefore, MFI regulation demands a new legal structure aimed at regulating credit relations between creditors and debtors, domestically as well as internationally.

Profit Margins and Microcredit Profitability

Using the World Bank's data, I analyzed the profitability levels of fifteen MFIs with a large margin of profit at a global level by regions[4] during 2012. I took into account those MFIs that, as borrowers, are located above 60 percent since, during that year, they reflect a profit margin above 65 percent (Table 1). However, there is the case of MEC le Sine with a profit margin of 209 percent. On average, the profit margin of the main, most profitable MFIs is 75 percent.

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[2] BIS is located in Basilea, Switzerland.

[3] "Money manager capitalism" is defined as the changes that occur in the banking structure and the return to instability due to a characterization of capitalism based on securitization, globalization, financialization, deregulation, and liberalization (Tymoigne and Wray 2014, 72).

[4] The regions taken into account for this analysis are Latin America and the Caribbean, Southern Asia, Eastern Asia and the Pacific, Central Asia and Eastern Europe.

Table 1. Main MFIs by Profit Margin, 2012

Name	Country	Women borrowers %	Assets (thousands of $)	ROA %	ROE %	Profit margin %
MEC le Sine	Senegal		547,773	23	101	209
Hope Russia	Russia	79	449,951	11	11	88
MF Nadejda	Russia	79	449,951	11	11	88
Inam	Azerbaijan	33	13,415	6.0	6.0	87
Alcaravan	Colombia	61	7,573,055	26	43	86
CCC	Ecuador	42	3,319,228	10	13	84
Rishenglong	China	15	22,994,732	8.0	11	78
Ochir-Undraa OMZ	Mongolia	41	4,872,000	6.0	9.0	72
Fundación Paraguaya	Paraguay	86	30,510,006	20	76	67
TEDC	Iraq		6,589,490	16	16	67
JSJRMCC	China		95,782,744	8	12	67
Amalkom	Iraq		7,606,743	41	48	67
UCEC-G	Chad		3,010,413	7.0	19	66
BTV	Vietnam	87	311,757	12	12	66
Guarantee Agency of Nizhniy Novgorod	Russia	20	17,383,426	5.0	6.0	65

Source: Mixmarket (2012).
Notes: ROA: Return on Assets (Net Operating Income, less Taxes)/Assets, average; ROE: Return on Capital (Net Operating Income, less Taxes)/Capital; Profit Margin: Net Operating Income/ Financial Revenue.

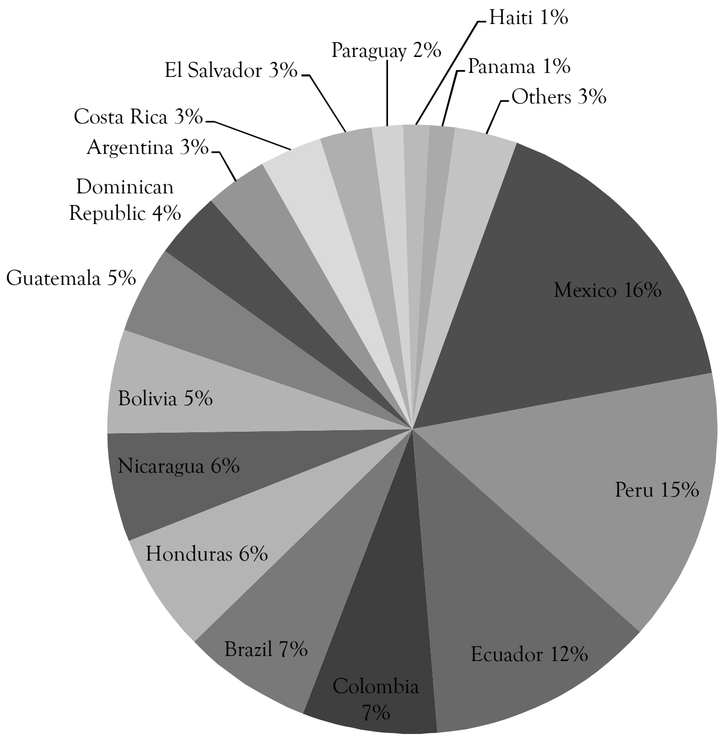
Taking into account the available data, I made a regional analysis according to the World Bank's classification.

Latin America and the Caribbean

Latin America and the Caribbean involve seventeen countries,[5] of which Mexico had the highest number of MFIs in this area with a total of sixty in 2012. For Mexico, this number is equivalent to 16 percent of the total MFIs established within the region, followed by Peru and Ecuador with 15 and 12 percent of the total, respectively (Figure 1). The distribution of assets within the region differs. Peru had the highest amount of assets with 32 percent of the total, followed by Colombia and Mexico with 21 and 12 percent, respectively (Figure 2).

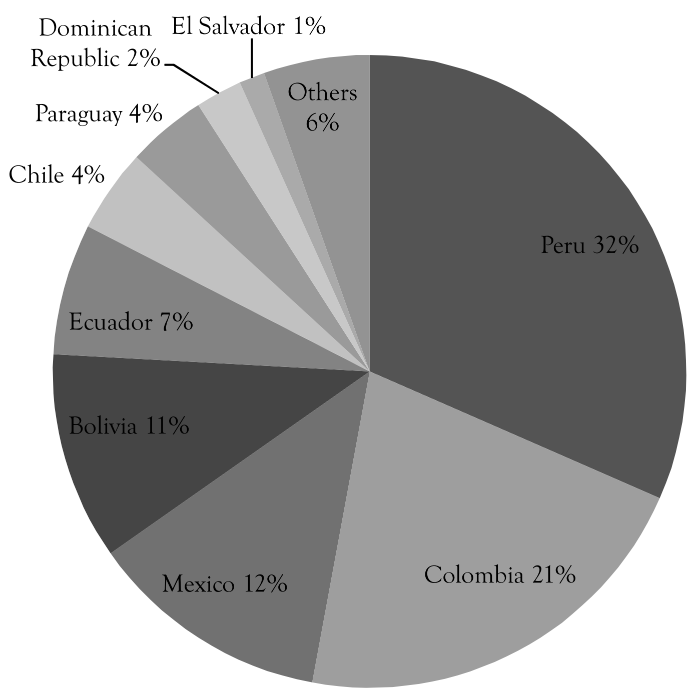
[5] For this region and because of the existent MFIs, Mixmarket only takes into account the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Santa Lucia, Suriname and Trinity, and Tobago.

Figure 1. MFIs' Distribution by Country, Latin America and the Caribbean, 2012



Source: Mixmarket (2012).

Figure 2. MFIs' Asset Concentration by Country, Latin America and the Caribbean, 2012



Source: Mixmarket (2012).

Of the fifteen MFIs, whose profit margin in Latin America and the Caribbean was highest, seven granted more than 50 percent of their credit to women and showed a profit margin above 50 percent (Table 2). Three of the fifteen MFIs are located in Colombia, alongside the MFI with the largest profit margin — Alcaravan (this MFI granted six out of every ten loans to women). Thirteen out of the fifteen main MFIs granted over 60 percent of their credit to women. The case of FIACG, in Guatemala, stands out since 100 percent of its loans were granted to women, generating a profit margin of 34 percent, a ROA of 13 percent, and a return on equity (ROE) of 14 percent. On average, the indicator for the fifteen MFIs is 17 percent ROA and 34 percent ROE. The MFIs with the highest percentage of credit granted to women were Compartamos Banco and Invirtiendo, both Mexican, with 94 and 93 percent, respectively.

Table 2. Main MFIs in Latin America and the Caribbean, 2012

		Profit Margin			
Name	Country	Women borrowers %	Assets (thousands of $)	ROA %	Profit margin %
Alcaravan	Colombia	61	7,573,055	26	86
CCC	Ecuador	42	3,319,228	10	84
Fundación Paraguaya	Paraguay	86	30,510,006	20	67
FUNDEVI	Honduras	46	100,802,289	6.0	59
LICU	Belize		19,835,918	6.0	55
Invirtiendo	Mexico	93	32,012,269	19	52
FOVIDA	Peru		2,507,512	11	50
APACOOP	Costa Rica	26	4,162,935	7.0	46
Fundación Mundo Mujer	Colombia	64	480,471,143	17	45
FUNDESCAT	Colombia	56	3,632,513	9.0	43
IPED Guyana	Guyana	34	13,959,317	8.0	42
Financia Credit	Panamá	2	3,571,088	7.0	41
MCN	Haiti	64	24,121,586	17	40
CREDIOESTE	Brazil	24	2,830,603	17	38
MUDE	Guatemala	91	1,981,227	9.0	37
		ROA			
Name	Country	Women borrowers %	Assets (thousands of $)	ROA %	Profit margin %
ACCESS	Jamaica	57	9,527,859	29	36
Alcaravan	Colombia	61	7,573,055	26	86
Fundación Paraguaya	Paraguay	86	30,510,006	20	67
Invirtiendo	Mexico	93	32,012,269	19	52
Fundación Mundo Mujer	Colombia	64	480,471,143	17	45
CEAPE MA	Brazil	67	22,912,912	17	33
CREDIOESTE	Brazil	24	2,830,603	17	38
MCN	Haiti	64	24,121,586	17	40
ASEI	El Salvador	83	3,617,474	15	33
Compartamos Banco	Mexico	94	1,333,796,296	13	31
FIACG	Guatemala	100	3,495,906	13	34

Table 2 continued

Fundación Adelante	Honduras	99	1,460,022	13	22
ECLOF - DOM	Dominican R.	80	6,578,954	13	30
Avanzar	Argentina	65	352,080	12	15
Financiera CIA	Mexico	82	2,759,949	12	25
		ROE			
Name	Country	Women borrowers %	Assets (thousands of $)	ROE %	Profit margin %
FUNDESER	Nicaragua	50	20,267,041	115	86
Fundación Paraguaya	Paraguay	86	30,510,006	76	84
ECLOF - DOM	Dominican R.	80	6,578,954	71	67
ACCESS	Jamaica	57	9,527,859	44	59
Alcaravan	Colombia	61	7,573,055	43	55
Apoyo Económico	Mexico	56	103,648,367	39	52
Financiera Edyficar	Peru		1,064,706,594	38	20
Santander Microcrédito	Brazil	69	11,398,537	36	46
CRAC Los Andes	Peru		50,960,794	35	45
MCN	Haiti	64	24,121,586	34	43
Fundación Mundo Mujer	Colombia	64	480,471,143	33	42
Fundación Alternativa	Ecuador	55	18,542,773	32	41
Compartamos Banco	Mexico	94	1,333,796,296	31	40
Invirtiendo	Mexico	93	32,012,269	30	38
CREDIOESTE	Brazil	24	2,830,603	30	37

Source: Mixmarket (2012).
Notes: ROA: Return on Assets (Net Operating Income, less Taxes)/Assets, average; ROE: Return on Capital (Net Operating Income, less Taxes)/Capital average; Profit Margin: Net Operating Income/ Financial Revenue.

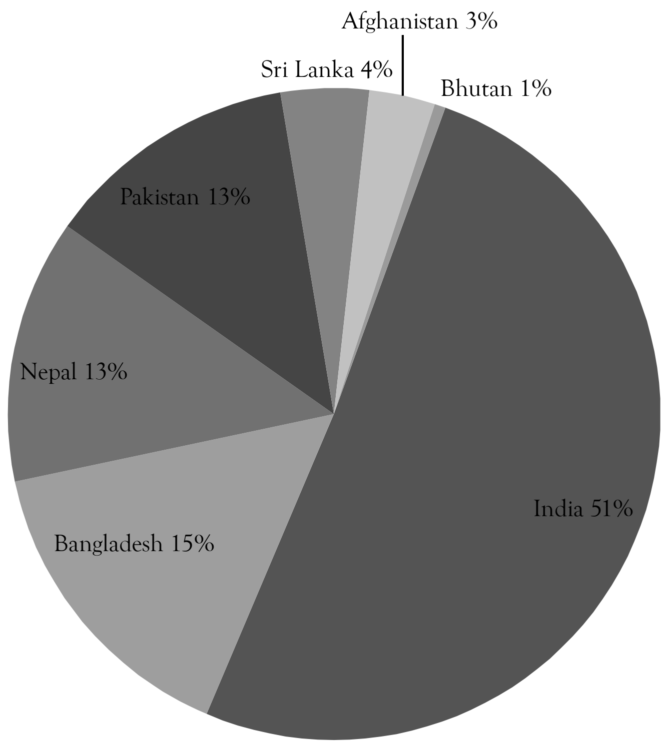
Southern Asia

Southern Asia comprises seven countries:[6] India involved 93 MFIs, the highest number in this region; Bangladesh 28; Nepal 24; and Pakistan 23. The distribution by number of institutions is as follows: India 51 percent, Bangladesh 15 percent, Nepal 13 percent, and Pakistan 13 percent. Together, the last three countries represent 41 percent, while the other MFIs are located in Sri Lanka, Afghanistan, and Bhutan (Figure 3).

In relation to the concentration of assets, India stands out with 45 percent (4,524 million dollars) of the total for that region. It is followed by Bangladesh with 35 percent (3,513 million dollars). Together, these countries represented 80 percent of the total assets during 2012 (Figure 4).

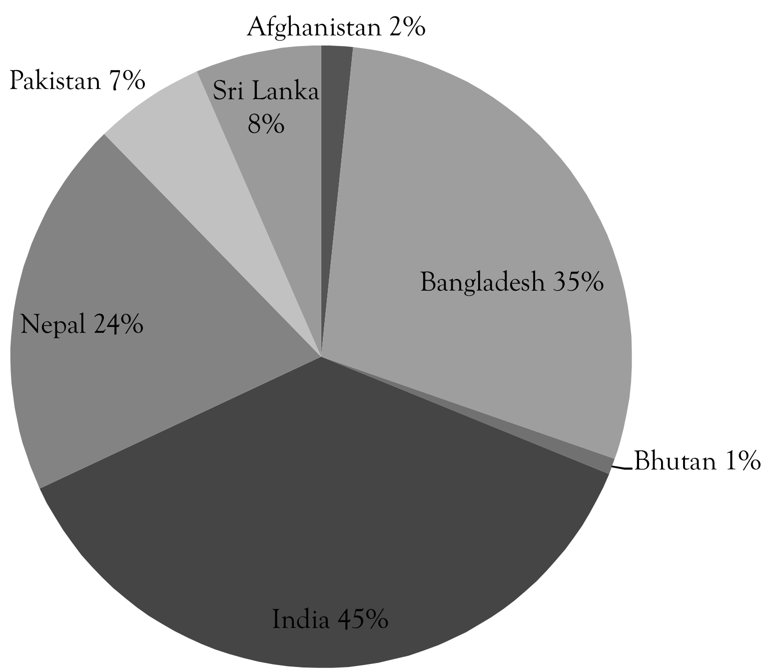
[6] For this region and because of the existent MFIs, Mixmarket only takes into account the following countries: Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka.

Figure 3. MFIs' Distribution by Country, Southern Asia, 2012



Source: Mixmarket (2012).

Figure 4. MFIs' Asset Concentration by Country, Southern Asia, 2012



Source: Mixmarket (2012).

The fifteen MFIs with the highest profit margin in this region had relatively high percentages of loans granted to women (Table 3). Eight out of the fifteen MFIs granted the total of their credit to women. The fifteen showed a profit margin above 20 and 60 percent. The case of India stands out since this country had four of the fifteen MFIs presented in Table 3. These four enterprises also granted 100 percent of their credit to women. The same table shows that fifteen MFIs with higher ROA granted more than the 80 percent of their credit to women. In eight of them, the percentage reaches 100, which also happened among the main MFIs by ROE, since fourteen out of fifteen MFIs granted more than 80 percent of their credit to women. Out of these, nine had a credit portfolio dominated by women. These are established in India, Bangladesh, and Nepal.

Table 3. Main MFIs in Southern Asia, 2012

Profit Margin					
Name	Country	Women borrowers %	Assets (thousands of $)	ROA %	Profit margin %
Jagaran MF	India	100	8,079,211	10	61
Nilkhantha SACCOS	Nepal	100	285,241	7.0	44
VERC	Bangladesh	98	13,478,720	9.0	41
ASA Pakistan	Pakistan	100	16,190,580	9.0	40
Muthoot	India	100	59,924,357	10	38
Bandhan	India	100	982,599,687	5.0	34
Muktinath Bikas Bank Limited	Nepal	100	6,774,990	7.0	33
VYCCU	Nepal	24	4,627,715	4.0	33
BDBL	Bhutan	38	140,276,781	4.0	33
BMSCCSL	Nepal		401,509	6.0	33
TMSS	Bangladesh	98	119,083,892	7.0	32
Sarala	India	100	7,364,865	6.0	31
RCDS	Pakistan	92	7,647,750	8.0	30
Sahara Mahila	Nepal	100	503,667	4.0	30
NRSP	Pakistan	79	73,671,819	7.0	29
ROA					
Name	Country	Women borrowers %	Assets (thousands $)	ROA %	Profit margin %
Muthoot	India	100	59,924,357	10	38
Jagaran MF	India	100	8,079,211	10	61
ASA Pakistan	Pakistan	100	16,190,580	9.0	40
VERC	Bangladesh	98	13,478,720	9.0	41
Lak Jaya	Sri Lanka	100	3,658,843	8.0	27
RCDS	Pakistan	92	7,647,750	8.0	30
Nilkhantha SACCOS	Nepal	100	285,241	7.0	44
NRSP	Pakistan	79	73,671,819	7.0	29
Muktinath Bikas Bank Limited	Nepal	100	6,774,990	7.0	33
TMSS	Bangladesh	98	119,083,892	7.0	32

Table 3 continued

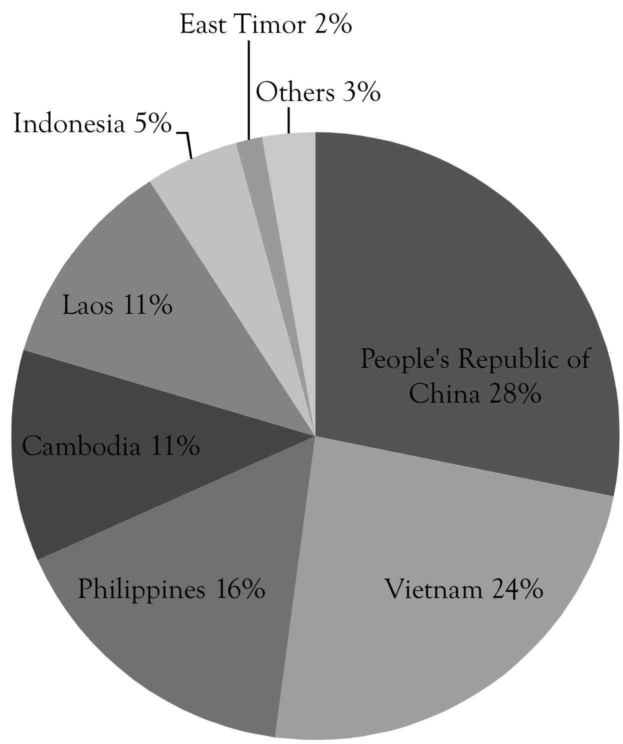
Sarala	India	100	7,364,865	6.0	31
RCDS	Pakistan	92	7,647,750	8.0	30
Sahara Mahila	Nepal	100	503,667	4.0	30
NRSP	Pakistan	79	73,671,819	7.0	29
		ROA			
Name	Country	Women borrowers %	Assets (thousands $)	ROA %	Profit margin %
Muthoot	India	100	59,924,357	10	38
Jagaran MF	India	100	8,079,211	10	61
ASA Pakistan	Pakistan	100	16,190,580	9.0	40
VERC	Bangladesh	98	13,478,720	9.0	41
Lak Jaya	Sri Lanka	100	3,658,843	8.0	27
RCDS	Pakistan	92	7,647,750	8.0	30
Nilkhantha SACCOS	Nepal	100	285,241	7.0	44
NRSP	Pakistan	79	73,671,819	7.0	29
Muktinath Bikas Bank Limited	Nepal	100	6,774,990	7.0	33
TMSS	Bangladesh	98	119,083,892	7.0	32
Manushi	Nepal	100	2,212,828	6.0	24
BRAC	Bangladesh	96	788,944,880	6.0	23
GJUS	Bangladesh	90	3,375,898	6.0	26
Sarala	India	100	7,364,865	6.0	31
BMSCCSL	Nepal		401,509	6.0	33
		ROE			
Name	Country	Women borrowers %	Assets (thousands of $)	ROE %	Profit margin %
Kashf Foundation	Pakistan	100	46,058,595	767	7.0
GMF	India	100	440,256	130	3.0
Muthoot	India	100	59,924,357	93	38
SOLVE	Nepal	100	1,133,988	72	20
SKDRDP	India	62	446,615,297	70	17
Muktinath Bikas Bank Limited	Nepal	100	6,774,990	69	33
Manushi	Nepal	100	2,212,828	57	24
GMSSS	India	100	1,001,582	44	27
DAMEN	Pakistan	100	9,336,549	36	17
MMFL	India	100	33,565,674	35	25
VERC	Bangladesh	98	13,478,720	34	41
TMSS	Bangladesh	98	119,083,892	34	32
SKS Foundation, Bangladesh	Bangladesh	97	12,717,506	33	15
BURO Bangladesh	Bangladesh	87	187,056,662	32	15
Annapurna Mahila Credit Co-op Society	India	96	7,006,557	32	9.0

Source: Mixmarket (2012).
Notes: ROA: Return on Assets (Net Operating Income, less Taxes)/Assets, average; ROE: Return on Capital (Net Operating Income, less Taxes)/Capital average; Profit Margin: Net Operating Income/ Financial Revenue.

Eastern Asia and the Pacific

Eastern Asia and the Pacific region comprises ten countries.[7] China was the country with the highest number of established MFIs and a total of forty financial intermediaries, which is equivalent to 28 percent of the total MFIs within the region in 2012. By comparison, during the same year, Vietnam was represented by twenty-four MFIs. In Figure 5, MFIs' distribution among the countries of that region is observed. In what refers to the distribution of assets, China had the highest number — 81 percent of the total within the region, followed by Vietnam with the 12 percent (Figure 6).

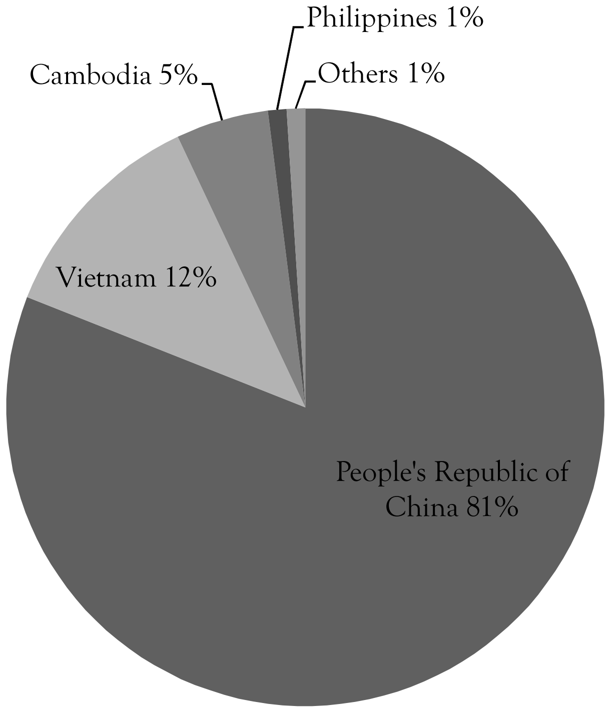
Figure 5. MFIs' Distribution by Country, Eastern Asia and the Pacific, 2012



Source: Mixmarket (2012).

[7] For this region, Mixmarket only takes into account the following countries: Cambodia, the Philippines, Indonesia, Laos, Papua New Guinea, China, Samoa, East Timor, Tongues, and Vietnam.

Figure 6. MFIs' Asset Concentration by Country, Eastern Asia and the Pacific, 2012



Source: Mixmarket (2012).

Table 4 shows the fifteen MFIs with the highest profit margin within Eastern Asia and the Pacific. Out of these, eight granted more than 70 percent of their credit to women. Two cases are worth mentioning: (i) China had six of the fifteen MFIs in this region, and (i) Vietnam gathered eight out of fifteen. Together, these countries concentrated fourteen out of fifteen MFIs within their territories, with the largest margins of profit in the Eastern Asia and the Pacific region. Table 4 also shows the fifteen MFIs with higher ROA, and in eleven of them, the credit portfolio comprised 70 percent women; among the MFIs with higher ROE, six granted the total of their credit to women.

Central Asia and Eastern Europe

Central Asia and Eastern Europe comprise twenty-one countries,[8] and most of the region's MFIs were established in Tajikistan during 2012 (Figure 7). This country

[8] For this region and because of the existent MFIs, Mixmarket only takes into account the following countries: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Georgia, Kazakhstan, Kosovo, Kirgizstan, Macedonia, Moldavia, Mongolia, Montenegro, Poland, Romania, Russia, Serbia, Tajikistan, Turkey, Ukraine, and Uzbekistan.

concentrated thirty-two of the MFIs, which is equivalent to 17 percent of the total. However, assets were concentrated in Azerbaijan and Mongolia, representing 21 and 19 percent of the total, respectively (Figure 8). The other countries of this region showed a number that was below 10 percent.

Table 5 contains the fifteen MFIs with the highest profit margin in Central Asia and Eastern Europe. Six of these granted more than the 50 percent of their credit to women and had a profit margin above 53 percent. In terms of ROA, eight of the main fifteen MFIs granted less than 60 percent of their credit to women and only three granted more than 80 percent to women. Asian Credit Fund (ACF), established in Kazakhstan, granted 100 percent of their credit to women, and their ROE represented a value near 100 percent as well.

In conclusion, the Central Asia and Eastern Europe region granted less credit to women. South Asia was the region with the highest percentage of credit granted to women, within which India stands out since, according to the available data about this country, it had the highest amount of MFIs that granted 100 percent of their credit to women. In Latin America and the Caribbean region, several countries did not presented any data, but, under these restrictions Mexico stands out since many of its MFIs granted a 100 percent of their credit to women in 2012. The MFIs established in Eastern Asia and the Pacific region granted over 70 percent of their credit to women.

Table 4. Main MFIs in Eastern Asia and the Pacific, 2012

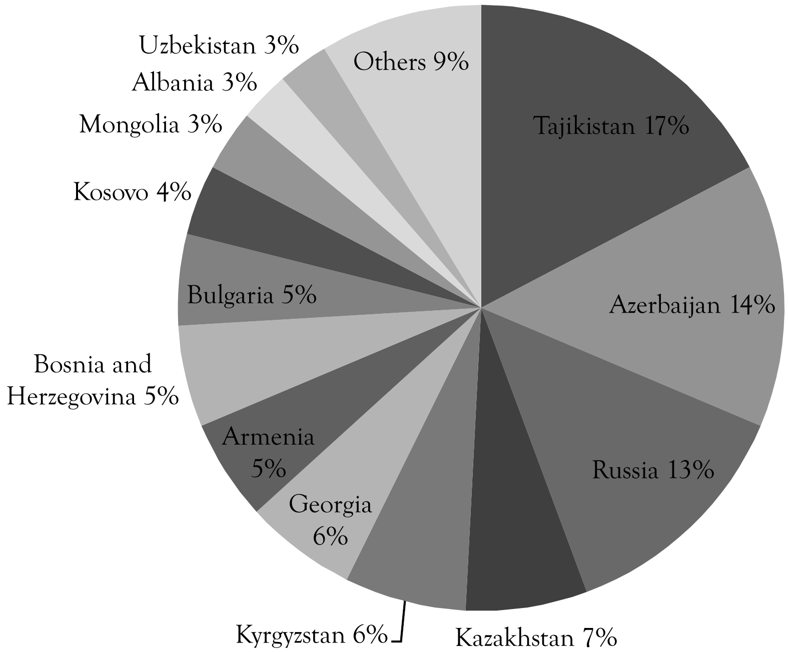
Profit Margin					
Name	Country	Women borrowers %	Assets (thousands of $)	ROA %	Profit margin %
Rishenglong	China	15	22,994,732	8.0	78
JSJRMCC	China		95,782,744	8.0	67
BTV	Vietnam	87	311,757	13	66
Credit & Savings Project-Women Union	Vietnam	100	427,687	9.0	60
Guangxi Longlin	China	29	324,204	3.0	54
IPR	Cambodia	41	6,470,428	13	53
Sichuan Xinfu MCC	China		185,181,446	5.0	51
Women Economic Development Fund-HCM	Vietnam	100	2,164,539	7.0	49
ChildFund Hoa Binh	Vietnam	100	732,428		47
Dariu	Vietnam	100	2,853,812	12	47
SEDA	Vietnam	100	1,193,867	9.0	47
HanHua	China		119,950,010	9.0	47
PNN Soc Son	Vietnam	100	416,644	27	46
CAFPE BR-VT	Vietnam	70	1,976,935	10	45
MicroCred-Nanchong	China	25	40,561,634	7.0	42

Table 4 continued

ROA					
Name	Country	Women borrowers %	Assets (thousands of $)	ROA %	Profit margin %
PNN Soc Son	Vietnam	100	416,644	27	46
SCU Luang Prabang	Laos	61	271,702	14	40
IPR	Cambodia	41	6,470,428	13	53
Dariu	Vietnam	100	2,853,812	12	47
BTV	Vietnam	87	311,757	12	66
WFDF	Laos	100	1,108,359	11	34
ASKI	Philippines	73	47,141,013	11	27
M7 DB District	Vietnam	100	329,741	10	41
CAFPE BR-VT	Vietnam	70	1,976,935	10	45
SEDA	Vietnam	100	1,193,867	9.0	47
Credit & Savings Project-Women Union	Vietnam	100	427,687	9.0	60
M7 Ninh Phuoc	Vietnam	100	478,788	9.0	40
M7 DBP City	Vietnam	85	663,537	9.0	33
HanHua	China		119,950,010	9.0	47
BMT Sanama	Indonesia	34	723,738	9.0	31
ROE					
Name	Country	Women borrowers %	Assets (thousands of $)	ROE %	Profit margin %
PATRA Hunchun	China	100	618,973	138	26
ASKI	Philippines	73	47,141,013	65	27
BMT Sanama	Indonesia	34	723,738	60	31
Credit & Savings Project-Women Union	Vietnam	100	427,687	47	60
PNN Soc Son	Vietnam	100	416,644	44	46
SCU Luang Prabang	Laos	61	271,702	35	40
ASA Philippines	Philippines	100	52,853,533	33	11
CARD Bank	Philippines	97	100,378,696	32	24
SPBD Tonga	Tonga	100	2,128,683	31	20
M7 Uong bi	Vietnam	90	1,476,514	30	29
ACLEDA	Cambodia		1,908,178,016	30	37
EMI	Laos	83	2,892,433	30	11
CEP	Vietnam	75	59,345,980	29	40
PRASAC	Cambodia	77	251,259,169	28	33
MBK Ventura	Indonesia	100	39,360,395	28	14

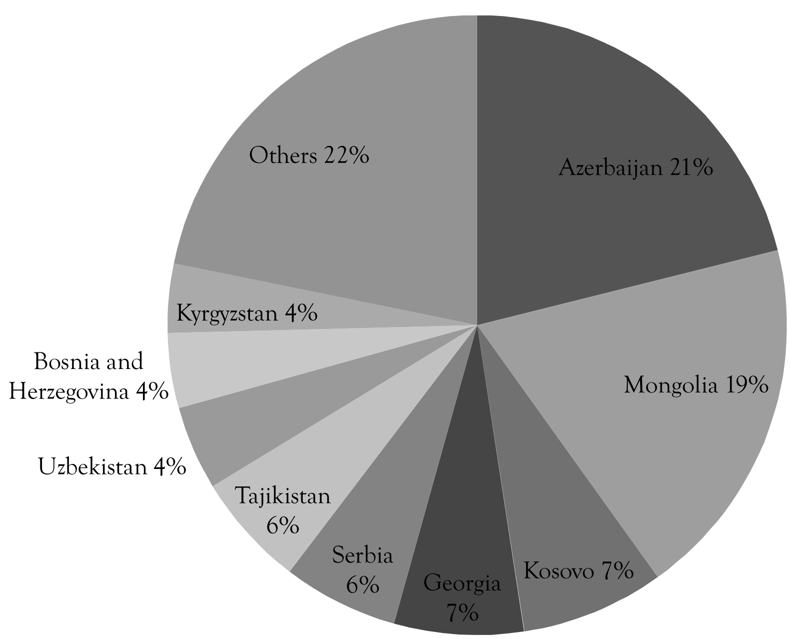
Source: Mixmarket (2012).
Notes: ROA: Return on Assets (Net Operating Income, less Taxes)/Assets, average; ROE: Return on Capital (Net Operating Income, less Taxes)/Capital average; Profit Margin: Net Operating Income/ Financial Revenue.

Figure 7. MFIs' Distribution by Country, Central Asia and Eastern Europe, 2012



Source: Mixmarket (2012).

Figure 8. MFIs' Asset Concentration by Country, Central Asia and Eastern Europe, 2012



Source: Mixmarket (2012).

Table 5. Main MFIs in Central Asia and Eastern Europe, 2012

Name	Country	Women borrowers %	Assets (thousands of $)	ROA %	Profit margin %
Profit Margin					
Hope Russia	Russia	79	449,951	11	88
MF Nadejda	Russia	79	449,951	11	88
Inam	Azerbaijan	33	13,415	6.0	87
Ochir-Undraa OMZ	Mongolia	41	4,872,000	6.0	72
Garantee Agency of Nizhniy Novgorod	Russia	20	17,383,426	5.0	65
Netcapital	Mongolia	50	5,264,205	32	63
Maximum	Kazakhstan	0	75,468,120	5.0	63
BID NBFI	Mongolia	59	6,925,016	19	61
Transcapital	Mongolia		5,752,496	17	60
Ehyoi kuhiston	Tajikistan		499,975		60
AREGAK UCO	Armenia	76	32,033,555	13	59
Avrasiya-Kredit	Azerbaijan	51	2,406,728	18	53
Regional MC	Russia		4,911,595	4.0	52
Caucasus Credit	Azerbaijan	29	924,499	18	52
Easycred	Georgia	47	5,574,113	15	51
ROA					
Name	Country	Women borrowers %	Assets (thousands of $)	ROA %	Profit margin %
Netcapital	Mongolia	50	5,264,205	32	63
ACF	Kazakhstan	100	7,965,149	29	49
BID NBFI	Mongolia	59	6,925,016	19	61
Caucasus Credit	Azerbaijan	29	924,499	18	52
Avrasiya-Kredit	Azerbaijan	51	2,406,728	18	53
MLF ZAR	Tajikistan		533,508	17	42
Transcapital	Mongolia		5,752,496	17	60
Barakat	Uzbekistan	63	266,445	16	47
Easycred	Georgia	47	5,574,113	15	51
Salym Finance	Kyrgyzstan	49	3,725,717	14	46
Tadbirkor Invest	Uzbekistan	88	209,754	13	25
AREGAK UCO	Armenia	76	32,033,555	13	59
Mikro ALDI	Bosnia and Herzegovina	49	2,574,492	12	46
Bereke	Kazakhstan	89	8,443,893	12	37
Viator	Azerbaijan	39	18,224,113	11	33
ROE					
Name	Country	Women borrowers %	Assets (thousands of $)	ROE %	Profit margin %
ACF	Kazakhstan	100	7,965,149	410	49
Regional MC	Russia		4,911,595	90	52
Bank Eskhata	Tajikistan	36	149,691,597	59	31
Netcapital	Mongolia	50	5,264,205	56	63
BID NBFI	Mongolia	59	6,925,016	54	61
Bank of Baku	Azerbaijan		623,308,974	49	41

Table 5 continued

CREDO	Georgia	41	108,659,036	46	27
Azercredit	Azerbaijan	34	65,123,744	45	25
ICA	Azerbaijan	37	19,981,806	44	6
MLO HUMO	Tajikistan	45	19,409,472	39	29
FINCA-AZE	Azerbaijan	32	166,600,000	38	28
LTD MFO Capital Credit	Georgia	38	808,896	38	14
LOK Microcredit Foundation	Bosnia and Herzegovina	33	44,300,676	37	14
FINCA-GEO	Georgia	39	59,904,184	35	26
Parabank	Azerbaijan	31	133,233,333	35	22

Source: Mixmarket (2012).
Notes: ROA: Return on Assets (Net Operating Income, less Taxes)/Assets, average; ROE: Return on Capital (Net Operating Income, less Taxes)/Capital average; Profit Margin: Net Operating Income/ Financial Revenue.

A Successful Model to Obtain Profits

During August 2010, SKS Microfinance Limited, an enterprise located in Hyderabad, India, granted small loans to poor women and collected 350 million dollars at an initial public auctioned. The impressive debut on the stock market seemed to confirm that microfinance — loaning money to the poor who do not have enough access to formal loans from banks — might transform into something profitable and sufficiently attractive for investors. Other MFIs from India would follow the path of SKS and its rapid profitable growth (Kazmin 2011). In an article, "Microfinance Poor Service: Tiny Loans are Getting More Expensive," *The Economist* referred to the fact that, during the last several years, small loans have had a very high cost. For 1,500 MFIs around the world, the interest rates for small loans of 150 dollars or lower had increased from an average of 30 percent in 2004 to 35 percent in 2011 (*Economist* 2014).

Criticism of this micro-financing model has increased. Milford Bateman (2010) points out that microcredit as employment generator, aimed at alleviating poverty, actually increases risks, although it promotes development from below, empowers the poor, and increases communal solidarity, all elements of a tenable project. The central criticism is that microfinance has the opposite effect of reducing poverty since microcredit does not work when trying to generate a sustainable dignified environment for a community. The right to water, family, healthcare, and education, do not get satisfied by microfinance alone. That is, microfinance does not suffice for creating the infrastructure of services that communities need. The benefits through microcredit to the poor are few, many communities remain structurally fragile, and poverty is still increasing. Bateman's study (2013), in short, questions the conventional wisdom of the usefulness of microcredit.

The benefits of microcredit have been widely oversold, so that the financing-for-development discourse on the part of financial institutions has encouraged financial inclusion as the axis of economic development in society. The "bancarization" imperative implies that society should make an ever-increasing use of financial services offered by institutions near their location. It is believed that by guaranteeing a higher financial inclusion, a country will be most prosperous, which does not seem to be the case, especially when pointing out the cost of loans[9] and the high interest for loans granted to those clients from the bottom of the population's pyramid. Between 2005 and 2006, the interest rates for personal loans within the microfinance sector in Mexico fluctuated between 23 and 103 percent on average. At the same time, credit institutions for consumption charged a 77 percent interest, while the interest on credit cards of the main banks ranged between 27 and 75 percent, with the average national level resting at 48 percent (Rosenberg 2007). Beyond the presumed benevolence of these microfinance institutions, there is an increased charge when it comes to interest.[10]

It is worth observing that the development of humanitarian organizations, such as CARE,[11] transformed into MFIs, which defends human dignity and fights poverty. CARE started in Peru in 1997 with an initial investment of 3.5 million U.S. dollars, and was later bought by the Bank of Credit for 96 million dollars.

The microfinance industry represents over sixty billion dollars. NGOs serve 35 percent of all clients, while credit unions and rural banks serve only 5.0 percent. Compartamos,[12] which started as an NGO and generated 458 million dollars during a public auction in 2007, is one of the largest institutions in the western hemisphere, with 2.2 million active clients. This MFI charged 82 percent for management and interest during 2008. Nigeria's Lift Above Poverty Organization (LABO)[13] also charges excessive interest, and grants most of its credit to women.

[9] The average interbank interest rate in Mexico was relatively low, almost 8.0 percent in 2008. The fundamental cause is the administrative, rather than funding cost. Another Mexican group that plays an important role in the expansion of transparency through financial education is Prodesarrollo, a network of forty-six subsidiaries of IMFs, NGOs, and banks which, together, served more than 1.3 million low-income clients during 2007. The network uses financial education campaigns, employer incentives, and consumers satisfaction evaluations to promote financial education (Centro para la Inclusión Financiera 2009, 32)

[10] An example is Te Creemos, with annual average rate of 125 percent (Macfarquhar 2010).

[11] CARE receives support from various financial institutions for its pioneering work in microfinance. For example, Barclays, CARE International, and Plan International (USA), have joined in an initiative to enhance the quality of life of the poor through widening and developing their access to basic financial services. The initiative brought together the resources of each organization in Africa, Asia, and South America (CARE 2014).

[12] Compartamos was born as an MFI and later transformed into a bank in Mexico.

[13] Lift Above Poverty Organization (LAPO) is an institution that grants microcredit. Its activities started in 1987 and it registered as a NGO in 1993. In Nigeria, it is related to the Grameen Bank. Its funding comes mainly from the Evangelischer Entwicklungsdientes (EED) — a German service for the development of evangelical churches, USAID, and the Grameen Foundation. LAPO is an MFI funded by the Deutsche Bank and the Calvert Foundation.

MFIs' interest rates vary around the world, generating substantial profits for loan providing entities. The United States House Committee on Financial Services[14] has been concerned with the substantial profits of these ventures. Rates vary from one country to another. It is very important to take into account the cases of Nigeria and Mexico since the credit offers and interest rates MFIs from these countries charge are very high and above the formal financial systems' average. An example of the latter may be the average interest rate charged by microfinance institutions of — at least, in Mexico — 70 percent or more as compared to the global average of 37 percent (U.S. Committee on Financial Services 2010).

Institutional Investors and MFIs

One of the questions to be delved into when investigating MFIs and microcredit is: Where do the funds to finance those who do not meet the credit requirements within formal financial circuits come from? Banks and institutional investors dominate loans and their profits exceed 100 percent. Muhammad Yunus himself stated that "we created microcredit to fight the loan sharks; we didn't create microcredit to encourage new loan sharks ... Microcredit should be seen as an opportunity to help people get out of poverty in a business way, but not as an opportunity to make money out of poor people" (United Nations News Centre 2006).

JP Morgan Chase invested money in CARE to grant loans to those families that were devastated by the 2004 tsunami in India, Indonesia, Sri Lanka, and Thailand. The purpose of the project was for MFIs to help families and communities in rebuilding their infrastructure through entrepreneurial development. At an institutional level, CARE has supported the creation, development, and strengthening of many MFIs throughout Latin America, Asia, and Africa. Its goal is to develop and improve the ability of MFIs to obtain financial and non-financial services, intended to impact the poor in an effective, long-term, and tenable manner. MFIs provide loans for machinery and work capital to small and micro-businesses that are frequently larger and more formal than those groups that receive savings and loan services. One of these is the Development Entity of Small and Micro Enterprises (known as EDYFICAR, in Spanish), created by CARE in Peru in 1998. EDYFICAR offers a variety of financial products, including personal and group loans to the poor. EDYFICAR has been so successful that it has become a leading microfinance institution in Peru with a loan portfolio of around $200 million and with 1,170 employees serving over 195,000 clients across thirteen Peruvian regions. The Inter-American Development Bank ranked this institution ninth among all MFIs in Latin America.

[14] The United States House Committee on Financial Services (referred to as House Banking Committee) is the committee of the United States House of Representatives that supervises the financial industry, including values, insurances, banks, and the mortgage industry. The committee also supervises the Federal Reserve, the Treasury Department, the Securities, the Exchange Commission, and other regulators of financial services.

At a global level, and since the lack of access to commercial sources of capital is still a grave obstacle to the development of many MFIs, CARE helped in the creation of MicroVest — an investment fund that specializes in gathering and providing capital to smaller and growing MFIs. MicroVest has invested over eighty million dollars in thirty-seven MFIs across sixteen countries since it began its operation in 2003.

It is important to mention that as the Multilateral Investment Fund (MIF) of the Inter-American Development Bank, the Inter-American Investment Corporation (IIC), the Andean Development Corporation (CAF), and private investors, are participating in funding the Microfinance Growth Fund (MiGroF),[15] a new credit mechanism for MFIs in Latin America and the Caribbean. Among the main partners in this initiative is Banamex, a major commercial bank of Mexico, which joined the MiGroF for Latin America and the Caribbean. This institution would provide 250 million U.S. dollars in loans to medium and long-term MFIs throughout the region, offering funding in local currencies as well as in U.S. dollars. The Overseas Private Investment Corporation (OPIC) committed to providing 125 million U.S. dollars. Banamex, a subsidiary of Citibank, joined MiGroF as investor and partner, but it is also expected to participate in its corporate governance. When creating this MFI, it was announced that OPIC, Multilateral Investment Fun (MIF), member of the Interamerican Development Bank (IDB), and IIC, would work together to launch a new source of funding for Latin American MFIs, which had had to reduce their portfolios and credit availability as a consequence of the global financial crisis of 2008. MIF would provide ten million dollars to the new mechanism, IIC would contribute up to five million dollars, and CAF would give ten million dollars. The private investor partners of MiGroF, besides Banamex, are the Norwegian Microfinance Initiative (NMI), ACCION International, and BlueOrchard (Rozas 2012).

MIF and IIC had a very active role in structuring the MiGroF, as well as in defining its credit strategy. They also engineered the process through which the management of MiGroF passed on to the Swiss investments' manager BlueOrchard Finance A.S. As the president of both the IDB and IIC directory, Luis Alberto Moreno, put it, "this new source of funding is not only going to help MFIs to recover the credit availability they had before suffering the effects of the global financial crisis, but will also help in what refers to the growth of the microenterprise sector, which is the key for economic growth and a source of employment in many countries of the region" (BID 2010).

[15] The objective of the MiGroF is to supply funds to MFIs, so that they are able to widen their loan portfolios, and to facilitate a sustained growth of the micro- and small enterprises level. When the U.S. presidency announced MiGroF in April 2009, during its participation in the Fifth Summit of the Americas, in the Port of Spain, Trinidad and Tobago, the U.S. government saw this fund as a necessity to close possible gaps that had resulted from the global financial crisis.

Institutional investors, such as pension and hedge funds, have permeated MFIs. Dutch pension funds like Algemeen Burgerlijk Pensioenfonds (ABP)[16] and Pension Fund for Care and Wellbeing (PGGM)[17] invested in Dexia[18] in order to channel their investments through BlueOrchard and Microfinance Investment Managers.[19] The strategy was apparently a very successful one, since there was BlueOrchard — the second major MFI — on one side, and PGGM that invested forty-one million U.S. dollars and 12 percent of their assets, on the other. There was also ABP, which invested forty million U.S. dollars. The total invested by the two pension funds was 20 percent of the total assets of Dexia, a very strong institution with high potential profitability. But the whole venture began to break in 2010/2011 with the collapse of the MFIs in Andhra, Pradesh, of which Dexia owned a very important part. It was, in fact, a drop of 1.85 percent in the MFIs located in Andhra, which had pushed it to bankruptcy by 2011.

Was the fund excessively exposed in Andhra? Not really. At the beginning of the crisis, in October 2010, 4.7 percent of the portfolio of Dexia was invested in MFIs operating in the region. However, a more rational evaluation was needed for a location of eighty-four million inhabitants and a portfolio of outstanding loans of around one billion U.S. dollars. Andhra was one of the major markets for MFIs in the world, attracting extremely high investments, and not only from Dexia. Its portfolio was reduced, but this still did not decrease the investment of capital by those who were looking to obtain profits. Investors and holders of mortgage assets or certificates from European Union countries were still betting on the profitability of MFIs.

The yield of Dexia should be observed in the context of an increasing pressure on European institutional investors. Insurance companies and banks were hit by high-risk capital requirements, and microfinance transformed into a higher-risk activity. Meanwhile, pension funds faced more rigorous stress factors in unclassified or non-liquid assets, such as microfinance. The most urgent matter of all was the low yields offered in financial markets, and within the context of pension funds, Dexia deserved a closer look. In the middle of all this, BlueOrchard looked to reform its two sibling enterprises, BlueOrchard Finance (bond funds) and BlueOrchard Investments (private capital).

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[16] Algemeen Burgerlijk Pensioenfonds (ABP) is a pension fund of government employees and education in Netherlands. In 2012, ABP had 2.8 million participants and assets worth 362.5 billion dollars. It is the largest pension fund in this area, and the third on a global level. It was established in 1922.

[17] Voor eenn waardevolle toekomst in Dutch, PGGM, manages pension funds amounting to about 153 billion dollars.

[18] Dexia makes investments in Greece, but mainly in India, and it was one of the first to fall into bankruptcy. Dexia got out of the Dexia Group in order to become Belfius (all the non-performing loans went to this bank).

[19] BlueOrchard, also known as Microfinance Investment Managers, boasts as having some of the most knowledgeable professionals of finance and dedicated entrepreneurs on a global level (see www.blueorchard.com/our-investment-process).

It is important to mention that it was major banks that introduced MFIs. That is how HSBC organized itself as an NGO for productive projects in education and leadership training. An example of such project is Future First-Investing in Our Children, which was created in 2006, with an initial investment of ten million dollars (HSBC through Society to Heal, Aid, Restore and Educate, SHARE; and Sophia College Ex–Students Association, SCESA, within the Raigad district for economic activities). A self-help group (SHG)[20] program for women was established with the objective of providing economic independence for women and generating a dignified household existence.

HSBC created a program to fund MFIs and encourage financial inclusion through microcredit. There were many cases when major banks, "too big to fail, too big to rescue," managed to build a niche for themselves by investing into MFIs. The Bank of Tokyo-Mitsubishi, for example, is related to MFIs in Pakistan and Santander in Latin America. The evaluation of microcredit is the percentage of the credit geared to productive projects. Foundation for International Community Assistance (FINCA) accepted that around 90 percent of microcredit is used for consumption (Bateman 2011). Thus, most microcredit loans have to be refinanced with new loans since the budget of many marginalized families already does not allow for repayment of microcredit, plus interest.

Microcredit loans are made through a joint alliance of NGOs and institutional investors (Karim 2011). These hybrid entities, however, need to realize profit, while also helping the poor. To this end, there are arrangements between NGOs and multinational corporations, resulting in businesses called social business enterprises (SBEs),[21] which implement and export the Grameen model. This model occurred when the Grameen Bank, the Building Resources Across Communities (BRAC), and the Association for Social Advancement (ASA)[22] emerged as NGOs and have since become exemplary MFIs, providing financial services to the poor on a global level, with high profitability (Karim 2011).

MFIs that start as NGOs are an important and constitutive part of the shadow state. They manage large investments through granting small credits to small businesses. In Bangladesh alone, there are eighty-six MFIs controlled by NGOs, and most of their credit is intended for rural women. The privatization of many state activities are now controlled by NGOs, which constitute a quasi-sovereign state in themselves and promote economic policies that are consistent with the national plans for development. NGOs have become determining factors in managing investment funding.

[20] SHG stands for a small voluntary association, preferably of people belonging to the same socio-economic group. They get together looking to solve common problems through self-help and cooperation. The SHG encourages it members to have savings held in banks. The members of the group are usually in their twenties.

[21] The Nobel Prize winner, Muhammad Yunus, coined this term to indicate social businesses combining profit and social provisioning. These businesses are presented as a win-win situation for both corporations and consumers of microcredit.

[22] The largest MFIs are located in Bangladesh: the Grameen Bank, BRAC, ASA.

Those behind such NGOs, acting as MFIs and are undoubtedly financial banking and non-banking investors, as well as pension and hedge-fund investors. It is not surprising that major banks often act through MFIs, granting funds for specific objectives or special projects and profiting from marginalized sectors in societies across the globe. These investors constitute a shadow (or parallel) financial system in economies globally (Girón 2012b).

Reflection

Nowadays, MFIs have a close relationship with banks and institutional investors. They are part of structured finance and guarantee profitability from collateral. They are mildly regulated entities because they began — and many of them remain — as NGOs, and their objective has transformed into granting loans to those who have no access to formal funding. Thus, their evaluation will require further discussion. In the present paper, I only argued that there is a relationship between MFIs, based microcredit, and that they make profits from loaning money to marginalized people.

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