The Ethical Crisis in Microfinance: Issues, Findings, and Implications

Marek Hudon
Université Libre de Bruxelles; Centre for European Research in Microfinance

Joakim Sandberg
University of Gothenburg; Centre for European Research in Microfinance

ABSTRACT: Microfinance is often assumed to be an ethically progressive industry, but in recent years it has been the target of much ethical criticism. Microfinance institutions have been accused of using exploitative lending techniques and charging usurious interest rates; and critics even question the ability of microfinance to alleviate poverty. This article reviews recent research on the microfinance sector that addresses these ethical issues. We show how this research is relevant to a number of theoretical issues, such as how to define poverty, how to understand exploitation, and how to balance financial and social goals in commercial organizations. We conclude by identifying a critical agenda for future research.

KEY WORDS: microfinance, development ethics, poverty, exploitation, corporate social responsibility

1. INTRODUCTION

MICROFINANCE IS THE EXTENSION OF FINANCIAL SERVICES to poor or low-income clients who typically are denied service by mainstream commercial banks. Most notably it involves extending very small loans, often below $200, to impoverished people in developing countries. This practice of microcredit lending has received global attention over the last two decades, especially since the United Nations declared 2005 the "Year of Microcredit," and the 2006 Nobel Peace Prize was awarded jointly to Muhammad Yunus and the Grameen Bank. As a result of this positive attention, microfinance institutions (MFIs) are receiving a growing share of the international aid budgets of many developed countries, including France, Germany and the United States (Gähwiler & Negré, 2011).

This praise chiefly stems from a belief that, by facilitating self-employment and entrepreneurship, access to credit can help people break out of poverty traps, in other words, that it can help the poor to lift themselves out of poverty (Armendáriz & Labie, 2011; Morduch, 1999a). Indeed, Yunus (2002, 2007) argues that access to credit should be considered a human right since it will help to "put poverty in museums." In line with this claim, the microfinance industry is frequently held up

©2013 **Business Ethics Quarterly** 23:4 (October 2013). ISSN 1052-150X 561–589
DOI: 10.5840/beq201323440

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

as ethically progressive. According to Pohl & Tolhurst (2010: 180), it is "one of the fastest growing CSR [corporate social responsibility] tools in the finance sector." Similarly, MFIs are often characterized as hybrid institutions with a twofold agenda: to do good (increase the social outreach of credit) and to do well (achieve financial sustainability) (Battilana & Dorado, 2010; Cull, Demirguc-Kunt, & Morduch, 2009; Morduch, 1999a).

In recent years, however, the microfinance industry has been the target of much moral criticism—indeed some scholars talk of an "ethical crisis" in the field (Hudon, 2011). Much of the debate started in 2007, when it was discovered that the very successful stock offering by the Mexican MFI Compartamos partly originated from poor borrowers' having to pay interest rates in excess of 100 percent (Lewis, 2008; Rhyne & Guimon, 2007). Other MFIs have been accused of relying on exploitative lending techniques, using forceful loan recovery practices, and pushing borrowers into "debt traps" (Harper, 2007; Hulme & Arun, 2011; Karnani, 2011). More generally, a number of scholars have started to question the belief that microfinance is an effective tool for alleviating poverty, or at least to demand further empirical evidence of its impact (Ellerman, 2007; Meyer, 2007). The most critical scholars argue that the popularity of microfinance really stems from neo-liberal ideology, particularly the aim to dampen resistance to financial sector liberalization and economic austerity policies at the community level (Bateman, 2010; Weber, 2004).

In some cases, these criticisms have triggered a severe political reaction. Local and federal authorities have closed branches of large MFIs in Ecuador, India, and Nicaragua (Counts, 2008). More than forty developing countries have imposed mandatory interest rate ceilings to address concerns of "usurious" pricing practices among MFIs (Fernando, 2006)—most recently Bangladesh and India, the world's two largest microfinance sectors. Allegations of usurious interest rates were also central in the recent chain of events that led to the dismissal of Muhammad Yunus from his post as head of the Grameen Bank. Yunus was ousted because, in the words of the Prime Minister of Bangladesh, MFIs "are sucking blood from the poor in the name of poverty alleviation" (Ahmed, 2010: 1). Thus, it is fair to say that the very existence of the microfinance sector is being threatened.

In this article we review some recent research on microfinance that relates to the abovementioned ethical concerns. The overall aim is to introduce microfinance as an interesting case study for business ethicists, both empirical and philosophical. Because the microfinance sector largely has been neglected in the critical literature, we focus primarily on empirical research (both quantitative and qualitative), but we try to show how this research is relevant to a number of more theoretical issues central to business ethics. Furthermore, our aim is to draw out some preliminary implications from the empirical material that can provide the basis for further critical research in the future.

The article is organized according to what we take to be the three most fundamental ethical questions concerning microfinance: (1) Should it be done at all (what is known about the impacts of microfinance)? (2) How should it be done (do MFIs exploit poor clients)? And (3) who should do it (what are the characteristics of an

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

ideal microfinance provider)? After analyzing these issues, the article closes by outlining a critical research agenda for the future.

2. WHAT IS KNOWN ABOUT THE IMPACTS OF MICROFINANCE?

In most attempts at justifying microfinance, as noted above, proponents appeal to its potential for alleviating poverty. For example, Yunus (2007: 171) contends that, “combined with other programs that unleash people’s potential, microcredit is an essential tool in our search for a poverty-free world.” But what does this mean exactly?

In the philosophical literature on poverty and development, there are a variety of different conceptions and/or theories of their essential features. Most importantly, it has been suggested that poverty may be understood as: (1) a lack of the means necessary to satisfy certain basic needs (or the actual dissatisfaction of those needs), including shelter, clothing and nutrition (Doyal & Gough, 2007); (2) a lack of certain basic human capabilities, including bodily integrity, emotional response and practical reason (Sen, 1999; Nussbaum, 2000); (3) exclusion from “normal social processes,” specifically through discrimination, powerlessness and “voicelessness” (Lenoir, 1989; Silver, 1995); or (4) lack of secure access to certain fundamental social and economic rights, including the rights to subsistence, education and health care (Nickel, 2005; Shue, 1996).

We suggest that recent research on the impacts of microfinance is relevant to this philosophical debate, especially to the issue of what dimension of poverty commercial agents can and should address. This can be understood as the central business ethics issue related to the philosophy of poverty, which obviously is also relevant to many other types of programs for CSR and development. We will here introduce this research, focusing in particular on economic poverty, empowerment and social exclusion.

Whether there is a human right to credit *per se* or whether MFIs can be seen as discharging other fundamental human rights obligations is an interesting issue that we unfortunately cannot address here (but see Hudon, 2009). According to recent business ethics scholarship, the argument that private companies, particularly transnational corporations active in global markets, could and should be assigned direct human rights obligations makes both moral and legal sense (Arnold, 2010; Cragg, 2012; Wood, 2012). More specifically, Arnold and Valentin (2013) argue that the only ethically legitimate way for companies to target desperately poor people (sometimes called the “base of the pyramid”) involves respecting their human rights to subsistence and well-being by enhancing their human capabilities and functionings. Future research may investigate the precise role that the financial sector can and should play in this regard.

2.1 The Impact of Microfinance on Economic Poverty

Curiously, microfinance was traditionally supported on the basis of anecdotal evidence alone, and few rigorous assessments of its impact were conducted (Banerjee, Duflo, Glennerster, & Kinnan, 2010). In the wake of the ethical crisis facing the industry, however, a number of scholars have started to question the precise rela-

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

tionship between microfinance efforts and poverty alleviation, or at least to demand further empirical evidence. Consequently, a number of impact studies have been conducted, primarily in South Asia and Latin America.

Most of this research focuses on the impact of microfinance on clients' financial situations, i.e., their wealth or spending. We may refer to this as *economic* poverty. The first study was carried out in the early 1990s on a sample of clients of rural credit programs in Bangladesh. Using this database, Pitt & Khandker (1996) claimed that, for every 100 taka lent to a woman in Bangladesh, an additional eighteen taka is added to the annual expenditure of her household. Moreover, Khandker (1998) found that as many as five percent of the clients of these credit programs eventually managed to lift themselves out of poverty.

Many scholars have been critical of the methodology used in these early studies on the grounds, for example, of endogeneity problems and selection biases related to MFIs' eligibility criteria (Armendàriz & Morduch, 2010). In recent years, therefore, scholars have started to analyze microfinance's impact using randomized control trials (RCTs). Two of the most detailed and methodologically stringent RCTs are those by Karlan & Zinman (2010) and Banerjee et al. (2010), and both produce less enthusiastic results. Karlan & Zinman (2010) discovered that, on the outskirts of Manila, the average male borrower receiving consumer credit appears to increase his profits but at the same time shrink his business as a result of the microloan. Banerjee et al. (2010) found that expenditure on durable goods increased in "treated" areas and the number of new businesses increased by one third, but they also found that access to microcredit had no impact on average monthly expenditure per capita.

There are so many studies on microcredit that we cannot cover all of them here. However, to evaluate the evidence, a review was recently commissioned in the United Kingdom by the Department for International Development (DFID). Analyzing as many as 58 impact studies focused mainly on microcredit, the review unfortunately finds methodological problems even in many RCTs. For instance, the studies frequently lack proper randomization and/or double blinding. Ultimately, the report takes a rather pessimistic stance and states that: "it is still unclear under what circumstances, and for whom, microfinance has been and could be of real rather than imagined benefit to the poor" (Duvendack, Palmer-Jones, Copestake, Hooper, Loke, & Rao, 2011: 75). The general message is that more research is needed.

A few RCTs assess microsavings (as opposed to microcredit), with more optimistic results. For example, Brune, Gine, Goldberg, and Yang (2011) analyzed the availability of savings accounts in rural Malawi and found that they have a positive impact on household expenditures. Similarly Abraham, Kast, and Pomeranz (2011) found that availability of microsavings reduces vulnerability to economic shocks among clients in Chile, who also said they were less worried about their financial future. Prina (2013) suggests that access to savings has increased monetary assets among microfinance clients in Nepal. Further, a recent study in rural Kenya found significant positive effects of microsavings among women working as market vendors, but not among men working as bicycle-taxi drivers (Dupas & Robinson, 2013). Almost all of the enthusiasm surrounding microfinance in recent decades has concerned credit, with savings products being largely neglected (Roodman, 2012).

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

The results of these four impact studies suggest that this asymmetry may have been misguided, however. At the very least, there seems to be some further potential in microsavings products.

One finding common to all microfinance products is that the impact of microfinance is certainly more heterogeneous than previously assumed. Mayoux (2001) found that access to microloans can actually increase local income inequalities because borrower groups tend to become controlled by those who are powerful in the community, to the detriment of the poorest and most disadvantaged. Biosca, Lenton, and Mosley (2013) similarly found that the social capital structure of borrower groups determines whether the non-financial services offered by MFIs have an effect on borrowers with the lowest incomes. As just noted, Dupas and Robinson (2013) found significant differences with regard to gender and occupation in their RCT on savings, with larger effects for female market vendors. Finally, in a recent and much-anticipated RCT of Compartamos's clients, Angelucci, Karlan, and Zinman (2013) found that treatment effects varied a great deal among the twenty different sub-groups examined. While no group was seriously harmed by microfinance, some types of clients benefited more than others, such as those with a longer education and those with previous business experience. The authors conclude by stressing the need for further empirical scrutiny into the underlying mechanisms that make microfinance work better for some than for others.

Judging from the above, we conclude that there is reason for concern over what is known about the impact of microfinance on clients' economic poverty. While some microfinance initiatives appear to have positive effects on economic poverty under certain circumstances and for some groups of clients, there is still insufficient evidence to justify the whole phenomenon of microfinance since many studies find little or no positive impact. This concern also has broader implications because few other CSR initiatives have been as clear about their methods and goals when it comes to alleviating poverty as has the microfinance industry. Thus, the results of these empirical investigations seem troubling to the whole idea of addressing global poverty through commercial activity.

Of course, it is possible that researchers may have been focusing on the wrong measurements. One recent suggestion is that microfinance can increase the economic resilience of clients and decrease their vulnerability (by adding an additional source of funds) without impacting directly on their wealth or spending. For instance, Morduch (2013) argues that consumption loans should be developed more extensively in microfinance, although with adequate controls for the risks involved. Interestingly, while most of the talk about microfinance has focused on microcredit, the impact studies that we find the most compelling in this context are those on microsavings products. However, we are apprehensive about the results on heterogeneity because they suggest that microfinance indirectly can lead to greater inequality in poor communities.

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

2.2 Microfinance and Empowerment

While most impact studies have focused on economic poverty, we have seen that poverty alleviation can also involve other factors, such as psychological or societal empowerment, elimination of societal discrimination and exclusion, or more generally a higher quality of life for the poor. It is well known that the "social" (or more generally the non-financial) performance of hybrid organizations is difficult to assess (Mair & Marti, 2006). One reason is that elements of social value are often considered as "standing beyond measurement and quantification" (Emerson, 2003: 40). However, amid increasing pressure for results and aid measures, there has also been stronger pressure to measure the social performance of MFIs. Some of these measurements are rather complex—the Social Performance Taskforce, for example, has produced lengthy matrices of social indicators (Copestake, 2007)—but we will focus on just two dimensions here: empowerment and exclusion.

Microfinance is often connected to empowerment in various senses. For example, it is often hailed for lending predominantly to women, which is thought to lead to the empowerment of women and girls in patriarchal societies (Holvoet, 2004). The Grameen Bank notably decided to focus on women, on the grounds that this would have a greater impact on the wealth of the entire household (Yunus, 1998). According to the latest data from the Microcredit Summit, women account for more than 75 percent of the 195 million microborrowers worldwide (Reed, 2013). Thus, women continue to be the main clients of MFIs.

In terms of real impact, however, recent empirical studies paint a more nuanced picture of the relationship between microfinance and women's empowerment. For example, one recent study found that, compared with men, female clients worked in sectors with lower profits and growth potential and with harsher competition, and that microloans tended to perpetuate rather than challenge this economic order (Guérin, Kumar, & Agier, 2013). Agier and Szafarz (2013) analyzed a database of 34,000 loan applications from a Brazilian MFI and, interestingly, found that credit officers discriminated to some extent against female applicants. While there was no gender bias in approval rates, evidence was found of a "glass ceiling" effect that downsized the largest projects of female clients. Garikipati (2008) provides an in-depth analysis of borrower testimonies and finds that, while loans to women frequently end up as household assets or income, those assets are then controlled by men. In her most recent research, Garikipati explains that the way in which women use their loans is critical to their empowerment. For instance, while investing in household assets often leads to disempowerment, loans can also be used in more empowering ways (Garikipati, 2013). This is in line with the preceding conclusion that, while some forms or uses of microfinance may have positive effects, there is no wholesale justification for it.

Microfinance is often connected to empowerment on a more general level, too, however. We submit that part of its luster among international donors and politicians may be due to its "liberal" characteristics, namely that it emphasizes the responsibility of clients to escape poverty through microenterprise. Liberal scholars—that is, scholars who put great weight on the autonomy and responsibility of individuals (as

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

opposed to groups or the state) in political matters—typically argue that empowerment should be a central goal of development. For instance, Thomas Pogge (2002: 9) puts credit and microcredit on the list of projects that "augment the capacities of the poor to fend for themselves." And there are indeed empirical studies that lend support to this claim. Ravi & Rai (2011) compared microfinance borrowers with participants in a mandatory health insurance project and found that the latter were disempowered relative to the former.

While most empowerment studies have concentrated on microcredit, an exception is Ashraf, Karlan, and Yin (2010), who found that women's decision-making power in households increased with access to an individually held savings product. This, once again, suggests that microsavings has further potential.

According to other scholars, however, focusing on empowerment is too individualistic and decontextualized, mainly because it ignores the role of social and macroeconomic structures (Alsop, 2005). As noted above, the most critical scholars tie microfinance to neo-liberal ideology—a radical form of liberalism that forbids all types of state intervention in the market, including for public education and social security. Weber (2002; 2004) argues that microcredit is strategically embedded in the global political economy and has been used primarily to facilitate the implementation of financial sector liberalization on a global scale as well as the global trade in financial services. Similarly, Bateman (2010) argues there is no proof that microfinance has an impact on poverty alleviation; instead, it undermines economic and social development on the structural level. This is because it tends to work within, and thereby to perpetuate, or even strengthen, existing economic structures. Bateman concludes that microfinance is supported more by neo-liberal ideology than by proof.

In the end, we are unconvinced by Bateman's analysis. It understates the benefits of the stability of MFIs due to their reduced dependency on subsidies compared with the public credit programs or state-led structures of previous eras. Such programs tended to fall short of reaching their targets when public funding or interest ran out (Armendàriz & Morduch, 2010). In contrast, the establishment of cost-covering institutions that pursue development goals may offer opportunities to cope with external shocks. This should not be confused with neo-liberal ideology because even critics of neo-liberalism may appreciate the stability of MFIs.

Moreover, it is important to distinguish between two levels of agency in this context: political (as exercised by the state) and organizational (as exercised by MFIs). We agree with the critics that further emphasis must be put on the political dimension of microfinance, and that the current hands-off approach by some governments gives a neo-liberal impression, leaving the industry to sort everything out for itself. Not all states have acted in this manner towards microfinance (see the research on subsidies in section 4.2). In any case, such a political critique has no clear implications for what to think about the activities of the microfinance industry or individual organizations. Microfinance as such cannot be held to blame for neo-liberal policies because MFIs are not political agents (in the present meaning). To the extent that microfinance has a positive effect on the local level, we think it more plausible to say it is doing what is best under the prevailing circumstances.

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

This is also our view on the implications of the empowerment studies discussed earlier. In so far as microfinance can reach out to and empower certain neglected groups, both financially and socially, we affirm that it has both intrinsic and instrumental value. It has intrinsic value because empowerment is a form of development *per se*, and instrumental value because it tends to lead to other forms of development as well. Unfortunately, studies to date fail to confirm a general connection between microfinance and empowerment. That connection can only be found in some circumstances and for some MFIs.

2.3 Microfinance and Financial Exclusion

In a recent and influential book, Roodman (2012) reviews many of the studies mentioned above. While taking issue with Bateman's reading of the available evidence, he agrees there is insufficient justification for widespread optimism about MFIs' ability to alleviate poverty. Indeed, he argues that there are cases when microfinance has done more harm than good. This is the case when there is an oversupply of funds, and borrowers have been able to repay loans by borrowing from competitors—a phenomenon known as "overindebtedness" (see also Schicks, 2013). One of Roodman's conclusions is that MFIs need less money from overenthusiastic international donors and investors.

In the end, however, Roodman suggests that the real justification for microfinance lies elsewhere, namely its ability to address "financial exclusion." MFIs quite simply provide financial services (or access to them) to people who typically are denied service by mainstream banks; that is, those who do not ordinarily have access to such mundane yet important things as bank accounts, advice on financial planning, and the possibility to borrow. And according to Roodman, this is an important achievement in its own right.

Roodman is not alone in talking about financial exclusion and inclusion; this is actually a recent trend in the microfinance industry (Ehrbeck, Pickens, & Tarazi, 2012). It is frequently noted that MFIs' current coverage is far from the 2.5 billion people believed to be financially excluded worldwide (Demirguc-Kunt & Klapper, 2012).[1] Indeed some authors argue that financial inclusion ought to replace poverty alleviation as the central mission of MFIs (Servet, 2011). In our interpretation, this trend seeks to locate the justification of microfinance in its ability to counteract a possible form of discrimination: poor people's lack of access to financial services. As we have seen, some philosophers regard social exclusion and discrimination as a central form of (social) poverty (Lenoir, 1989; Silver, 1995).

We suggest that this view is simplistic, however. Surely, the fact that poor people receive access to formal financial services is not valuable *per se*, and the sole justification therefore cannot be that MFIs provide a service previously denied to the poor. Rather, the explanation must lie in some other value that is made possible by access to financial services. It may be natural to associate discrimination with some kind of harm or disempowerment because the two often go hand in hand (Pogge, 2002). In our view, however, the connection between financial inclusion and economic or social empowerment must be established empirically to justify further emphasis on

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

the former. As we have seen, it is not necessarily the case that poor people who are granted access to microfinance become wealthier or more empowered than their "untreated" peers.

It may be argued here that poor people's demand for microfinance products should be taken as a presumption of the products' broader justification. If some poor people accept MFIs' offers of loans and savings accounts, it is probably because those products meet some kind of need. Those poor people likely think they are better off (in the broad sense of preference satisfaction) with the products than without them, and therefore it should be presumed that financial inclusion is a worthwhile goal. We soon note certain troubling circumstances, however, that we take to speak against or complicate this argument (in section 3.2). At present, we simply stress again the current lack of empirical evidence in favor of such a presumption.

Finally, a recent sociological study gives further context to the topic of financial exclusion. Collins, Morduch, Rutherford, and Ruthven (2009) studied the day-to-day financial "diaries" of poor people in Bangladesh, India and South Africa. Even though their transactions were on a very small scale, the study found that poor people entered into many kinds of credit arrangements, with money flowing not just from family networks and informal lenders (moneylenders) but also from more organized creditors and "rotating savings and credit associations" (ROSCAs). If and when the populations in question received microfinance, it only supplemented these other funding sources. Apparently, therefore, poor people already have access to financial services, although not from formal actors. Judging from this study, it seems that the real challenge for MFIs is to provide high-quality services rather than to simply "include" the poor in the formal financial sector. Accordingly, the justification for microfinance must lie in some more concrete economic or social advantage in comparison with informal sources, such as moneylenders or ROSCAs.

Summarizing our comments on the impact literature, we have suggested that this literature is relevant to the critical issue of what dimension of poverty can and should be addressed by commercial agents. Hardly any other commercial initiative has been as clear as the microfinance industry about its methods and goals in terms of poverty alleviation. This also makes it interesting from the broader perspective of CSR and development.

With regard to the issue of what should be addressed, we have argued that the impact of microfinance must be tangible and measurable. It is insufficient to note that poor people receive access to products they were previously denied and talk of development on the grounds that "social exclusion" is a part of the definition of poverty. Many companies can grant access to new products, but the important question is whether those products make a real difference to poor people's lives, in other words, whether they are financially or socially empowering. We have argued that it is commendable for MFIs to pursue such empowerment despite the shortcomings of the political environment: accusations of neo-liberalism should be directed at politicians rather than at MFIs.

With regard to what can be addressed, however, we have concluded that there are insufficient grounds for general optimism about microfinance's ability to alleviate

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

poverty. Despite widespread praise, microfinance is insufficient to "put poverty in museums" as claimed by Yunus (2007). Instead, its impact seemingly depends on a broad range of details, including the way in which services are provided. We will now discuss these practical details further.

3. DO MICROFINANCE INSTITUTIONS EXPLOIT POOR CLIENTS?

Many of the recent concerns about microfinance are clearly related to business ethics in that they pertain to the daily management of MFIs. As noted above, some MFIs have been accused of charging usurious interest rates, relying on exploitative lending techniques, and using forceful loan recovery practices. If the most spectacular of these allegations are true, it seems clear that some MFIs have acted objectionably on certain occasions. But do any of the allegations point to a more general ethical problem in the sector?

As a theoretical point of departure, we may explore different philosophical conceptions of exploitation. The following dimensions of such conceptions seem to capture the essence of many—but perhaps not all—allegations against MFIs. First, exploitation is often considered to involve one party taking unfair advantage of another, in the sense that they lay their hands on an unreasonable proportion of the benefits produced by the mutual transaction (*the distributive dimension*; cf. Arneson, 2007; Snyder, 2010). "Unreasonable" may be understood in relation either to some fixed baseline or to a "hypothetical competitive market" (Wertheimer, 1996). Alternatively or additionally, exploitation is often taken to mean that the exploited party is under some condition of impaired voluntariness or consent, i.e., that he or she is being coerced or duped into accepting the transaction (*the procedural dimension*; cf. Steiner, 1984; Reeve, 1987). So, for example, Zwolinski (2007) argues that the answer to the question of whether using third-world sweatshops is illicitly exploitative ultimately depends on the consent of the workers involved. There is also a third dimension, which we will return to later: Exploitation may also refer to the rationale behind the acting agent's behavior, for example, whether or not he or she aims to deal with the other person merely as a means to an end (*the motivational dimension*; cf. Munzer, 1990). Buchanan (1988: 87), for example, suggests that exploitation of a person occurs "with the harmful, merely instrumental utilization of him or his capacities."

Which of these dimensions is ultimately the most important?[2] Once again we suggest that recent research on microfinance is relevant to this philosophical debate, and especially to the issue of whether MFIs' current practices are unethical because they exhibit some of the above features. The following discussion is structured on the basis of the above dimensions so that we consider the distributive dimension in relation to interest rates, and the procedural dimension in relation to lending techniques and loan recovery practices. We later discuss the motivational dimension in relation to MFIs' commercialization in general.

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

3.1 High Interest Rates on Microloans

The most salient criticism of microfinance in recent years concerns the comparatively high interest rates charged by the industry. Much of this ethical debate started with the Compartamos stock offering in 2007, which in part was made possible by interest rates in excess of 100 percent plus value-added tax, VAT (Lewis, 2008; Rhyne & Guimon, 2007). These rates alarmed Yunus, who, when interviewed, compared Compartamos to local moneylenders or "loan sharks" (Results, 2006). They even alarmed representatives of the Consultative Group to Assist the Poor (CGAP), a major donor consortium hosted by the World Bank (Rosenberg, 2007). The question that everyone was asking was whether Compartamos's rates were unique or whether they were common practice in the industry.

Recent research confirms that interest rates on microloans are consistently much higher than those offered by standard commercial banks, even in developing countries. According to figures from the Microfinance Information Exchange (MIX) database, typical annual rates range between 20 percent and 70 percent, with an overall average of about 30 percent (Rosenberg, Gonzalez, & Narain, 2009). These figures should be put into perspective. First, unlike Compartamos, very few MFIs charge annual interest in the region of 100 percent (Rosenberg, 2007). Second, these rates may not be all that different from what mainstream banks charge for their most expensive services, e.g., credit cards (Meier & Sprenger, 2010). Third, MFIs typically charge lower rates than do local moneylenders or "loan sharks," who sometimes charge anywhere from 10 percent to 20 percent per *month*. But a legitimate question is whether the difference is one of kind or simply degree, i.e., whether MFIs are "the new moneylenders." Does it not constitute distributive exploitation to charge as much as 70 percent in interest when lending to the poor?

In a recent article, Sandberg (2012) argues that we need further information about how microfinance works, beyond just the absolute value of interest rates, before we can answer this question. A first issue concerns how poor clients are likely to be affected by high rates. According to many economists, there is good reason to believe that poor micro-entrepreneurs should be able to cope with very steep interest rates. According to the "law of diminishing marginal returns on capital," the smaller the amount of starting capital, the higher the relative returns on investments (Armendáriz & Morduch, 2010). Thus, an experienced businessman who invests yet another $1,000 in his already proven company is likely to get much less out of this extra money than is a street vendor who uses $1,000 to start her first micro-business. Because interest rates are relative to the borrowed amount, the street vendor can also afford a much higher rate than the businessman.

Some authors have expressed doubts about whether this "law" actually describes reality (Harper, 2005). By and large, however, recent empirical studies seem to confirm the economists' forecasts. For example, de Mel, McKenzie, and Woodruff (2008) analyzed the returns of microfinance clients in Sri Lanka and found an average real return to capital of 4.6 percent to 5.3 percent per month (55 percent to 63 percent per year), which is very high compared with "normal" businesses. On closer examination, they also found a huge gender gap. While the average return

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

was 8 percent for men, there were no positive returns for female borrowers, which is troubling because women represent the vast majority of clients in Asia. Using similar methodologies, McKenzie & Woodruff (2008) found returns in the range of 20 percent to 33 percent per month among micro-entrepreneurs in Mexico, and Fafchamps, McKenzie, Quinn, and Woodruff (2011) noted high returns to capital among microenterprises in Ghana, although, again, higher for male clients. In combination, these results suggest that returns may have been over-estimated for female clients.

A second important question in this context is what drives the comparatively high interest rates on microloans. In other words, are they mainly due to shareholders' high return requirements or perhaps to the risks inherent in lending to the poor? According to Hudon & Ashta (2013), the fairness of microcredit arrangements must depend on the distribution of the surplus generated by the credit transaction—that is, on who benefits most from it (the lenders or the borrowers). Many would probably consider it exploitative if a substantial portion of the interest yield was extracted from MFIs in the form of lavish dividends to shareholders. So where does the money go?

Interestingly, a recent report from CGAP suggests that almost 80 percent of a typical MFI's income goes directly to cover two central costs: operating expenses and the cost of funds (Rosenberg et al., 2009). The unusually high operating or administrative expenses stem from the fact that MFIs typically administer an enormous number of very small financial transactions that generally require face-to-face interaction with borrowers (Fernando, 2006). Many MFIs also use personal contact as a substitute for formal collateral or computerized credit scoring. Furthermore, the unusually high cost of funds stems from the fact that MFIs are seldom able to depend on their own clients' deposits but instead borrow from commercial or quasi-commercial sources and then on-lend to the poor (Armendàriz & Morduch, 2010).

The same CGAP report indicates that the costs due to loan losses are relatively low, especially in comparison with commercial banks. Furthermore, the average profits of financially sustainable MFIs are only about 14 percent of the interest yield (Rosenberg et al., 2009). This means that even if an average MFI were to cut out all of its profits, it would only be able to reduce the interest rate by roughly one-seventh. In conclusion, then, it seems that what drives the comparatively high interest rates on microloans is neither high profit requirements nor the risks inherent in lending to the poor, but simply a very high level of operating costs.

Both Sandberg (2012) and Zwolinski (2008) argue that issues concerning fairness in pricing ultimately must be answered in light of the relevant institutional alternatives. From this perspective, it actually seems difficult to argue that MFIs exploit their clients in the distributive sense—that is, that they lay their hands on an unreasonable proportion of the mutually produced benefits (Wertheimer, 1996). This allegation seems to presuppose in particular that MFIs could give their clients much better deals. We have just seen, however, that most MFIs face very high costs and, in practice, many are unable to reduce their rates without assistance from outside agents such as governments, commercial banks, or overseas investors. So, while the interest rates on microloans are high, it seems that they are not always unreasonable or disproportionate in practical situations.

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

It may of course be argued that "unreasonable" should be understood in an absolute sense. For example, Yunus (2002) does not talk about a human right to credit in general but to *affordable* credit. On one interpretation, Yunus's position is that poor people have legitimate, justice-based claims to lower rates (Hudon, 2009). But we once again wish to stress the difference between political and organizational agency in this context. In so far as MFIs cannot be held responsible for (and cannot influence) the high costs that they face, they should not be criticized for setting interest rates high enough to cover these costs. And, if some clients cannot afford cost-covering interest rates, it plausibly falls on public bodies to issue subsidies to help MFIs decrease their prices (or to help these citizens in other ways).

We think that the above conclusion is not only interesting in the practical context, but that it also has implications for the theoretical discussion at hand. A more plausible theory of the distributive feature of exploitation must also take into account the opportunity cost to the receiving party—that is, that even an unreasonably small benefit may be preferable to no benefit at all. In so far as microfinance does indeed have a positive effect at the local level, and when there are no realistically available alternatives with better effects, we believe it is counterintuitive to criticize MFIs on the grounds of exploitation. This is not simply an external opposing moral reason—that is, a justification of microfinance even though it is exploitative in the distributive sense. Instead we see our argument as an alternative idea about distributive exploitation as such. One benefit of the latter view is that it avoids the seeming absurdity of exploitation being good for someone.

3.2 Consent from Clients

Much of the recent negative media coverage of microfinance has concerned allegations of MFIs using coercive lending techniques and forceful loan recovery practices (Counts, 2008; Heineman, 2010; Priyadarshee & Ghalib, 2012). One may interpret this kind of criticism as a different take on exploitation, namely the procedural dimension. The criticism would then be that microfinance transactions are less than fully voluntary on the part of the clients. We give more details on these allegations below.

Interestingly, many advocates of microfinance respond to the criticism of exploitative interest rates with an argument that appeals precisely to clients' consent. As just noted, repayment rates on microloans are extremely high. The latest figures from the MIX database indicate that the global average of loan losses due to delinquency or default is 1.9 percent (Rosenberg et al., 2009). This is well below the rate for most commercial banks (Hulme & Mosley, 1996), a fact often mentioned in attempts to justify the interest rates. According to Jackelen & Rhyne (1991: 5), for example, if a microfinance program "has excellent recoveries, mobilizes savings and demonstrates the ability to break even or be profitable using unsubsidized sources of funds, a prima facie case exists for the effort being justified."

This argument has affinities to Zwolinski's (2007) view on fairness in pricing, namely that much must depend on the transacting agents' own choices and consent. To the extent that clients willingly pay the relatively high prices, they indicate that the service is more important to them than the price. Furthermore, this reasoning is strikingly similar

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

to what we said could be an argument for microfinance's more general justification, namely the idea that poor people's demand for microfinance products indicates that these products are meeting some kind of need. Borrowers likely think they are better off (in the broad sense of preference satisfaction) with the products than without them, and, therefore, the presumption should be that financial inclusion is a worthwhile goal.

What does recent empirical research say about these matters? We wish to highlight two causes for concern. First, economists are well aware that one of the main explanations for high repayment rates, and hence for the financial success of many MFIs, is that money is frequently lent exclusively to groups (Ghatak & Guinnane, 1999; Hulme & Mosley, 1996). The Grameen Bank, for instance, has pursued a policy of lending only to groups of five women (Yunus, 1998; 2007). In turn, what explains the success of the group-lending model is the existence of heavy peer pressure on the individuals who have problems with repayment (Hulme & Mosley, 1996; Montgomery, 1996). Since the group members typically are jointly responsible for the repayment of loans, they may all get into trouble if one member defaults.

In recent qualitative research, a number of scholars have found troubling stories about the negative effects of peer pressure in borrower groups. For example, Shylendra (2006) found that such peer pressure can be one of the main causes of overindebtedness, since defaulting borrowers often turn to moneylenders to avoid abuse from their peers. Similarly Pattenden (2010) explains, based on a study of groups of laboring women in India, that negative group dynamics can reproduce or even widen economic and political inequalities, and they can also involve humiliation by members from upper classes and castes. In related research, it has been shown that borrower groups are sometimes formed without lenders analyzing local social practices and pre-existing social ties or collective pressures (Morvant-Roux, Guérin, Roesch, & Moisseron, Forthcoming). Based on an ethnographic study in Nepal, Rankin (2002) found that group lending models tended to exacerbate social hierarchies and thereby make it harder for women to become empowered.

It is important to stress that MFIs *themselves* do not force clients to repay using the group lending model. This should forestall the criticism of direct procedural exploitation. But relying on peer pressure could possibly be deemed a comparable offense. At the very least, it departs from the ideal of full willingness on the part of clients. According to Harper (2007: 39), "[i]t is clearly *convenient* for any institution to outsource to borrowers themselves the task of collecting debts from the poor, particularly when harsh methods have to be used" (emphasis added).[3]

The second cause of concern we wish to mention is even more indirect. An interesting debate in the philosophical literature concerns whether one can be coerced by a situation rather than by an agent. So, for example, it is often argued that a transaction can be exploitative when the weaker party is forced to accept it out of material or psychological necessity. Robert Goodin (1987: 185) holds that "those who are in rapidly declining positions and who in effect have 'no choice' but to accede whatever demands the other might make are . . , exploited when the other plays for advantage and strikes a hard bargain with them." The relevance of this to our case is fairly straightforward: One may argue that the severe poverty of many microfinance clients

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

creates a situation that similarly departs from the ideal of full willingness because the borrowers may in practice have no other choice than to seek loans from MFIs.

A related concern may be formulated by talking about exploitation of social vulnerability. According to Arnold (2013), a straightforward form of exploitation occurs when commercial agents take advantage of poor people's cognitive, social, or economic vulnerabilities in ways that undermine their human capabilities and basic rights. The concept of social vulnerability here specifically involves a susceptibility to accepting products that are not needed or that even cause harm to the consumer or borrower. As noted by Arnold and Valentin (2013: 1908), the addition of further consumer choices is not always a good thing but "may lead individuals in circumstances of dire poverty to purchase alcohol products rather than millet, or accept usurious loan terms from a commercial micro-lender in order to celebrate a religious festival." The relevant form of exploitation thus involves taking advantage of a situation that similarly departs from the ideal of full willingness.

Naturally, there are some arguments that advocates of microfinance may use in response to our two concerns. With regard to peer pressure in borrower groups, it could be argued that these circumstances are known to the clients before they enter the groups. And regarding the desperate situation of the poor, one could make the case that viable (and easily comparable) alternatives sometimes exist. For example, the second concern may not be relevant when clients also have access to traditional development aid and are sufficiently rational to make an informed decision between the two. These arguments may be taken to partly mitigate our concerns.

What should we conclude from the considerations above? On the theoretical level, we think it important to note the vagueness of the procedural account of exploitation. While very few MFIs use practices that are forceful or coercive in a direct sense, they may nevertheless depend on various indirect forms of coercion. So which types of coercion are ultimately relevant? We think that further critical work is needed on this important issue and hope to have shown how microfinance is an interesting test case in the context.

On the practical level, the limited conclusion we reach at this stage of our analysis is that the high demand for microfinance products cannot simply be taken as an indication of their beneficial effects. In other words, we should not presume that clients choose a product because it meets some kind of need, since they may just as well be coerced into the arrangement by either their situation or their peers. Therefore, as noted before, our standpoint is that we need more solid empirical evidence on the impact of various microfinance initiatives before accepting them. This is in line with Arnold and Valentin's (2013) conclusion that much ultimately must depend on whether businesses enhance or undermine the capabilities of the poor.

Summarizing our comments on recent criticisms, we have argued that there are no general ethical problems that undermine the justification for the whole microfinance sector. While interest rates are comparatively high, they seem more reasonable when put into the context of MFIs' high costs and clients' assumed level of tolerance. We have argued that this is so, at least so long as microfinance has beneficial effects on the poor. Furthermore, the MFIs that have used directly forceful lending or loan

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

recovery practices may have acted wrongly, but it is less clear what to say about the indirect coercion—from the borrower's situation and peers—that may be more typical of the industry. Our modest conclusion is that further empirical evidence must be sought before taking sides on this issue. Accordingly, no *a priori* presumption should be accepted about the justification—or lack of it—for microfinance. We shall now discuss some further empirical studies of the different business models in microfinance.

4. CHARACTERISTICS OF THE IDEAL MICROFINANCE PROVIDER

Although often grouped together simply as "microfinance institutions," the organizations that currently provide financial services to the poor are very diverse. They range from non-governmental organizations (NGOs) and cooperatives to self-help groups, rural development agencies and ROSCAs, not to mention public and private banks of all sizes, credit unions and international financial institutions (IFIs) (Armendàriz & Morduch, 2010). This raises the questions of what an ideal microfinance provider is, and what responsibilities different kinds of potential microfinance providers have.

As a theoretical overlay here, we may use the current debate in business ethics about different CSR models. Given the enormous magnitude of the literature on CSR, we cannot give a full overview of this research; we will simply note some major strands. Much of the research focuses on the "business case" for CSR, i.e., whether various sorts of socially responsible business conduct may lead to various financial advantages or rewards (Carroll & Shabana, 2010; Margolis, Elfenbein, & Walsh, 2007; McWilliams, Siegel, & Wight, 2006). In line with this instrumental focus, some theorists have sought to develop a "strategic CSR" model, which allows companies to use CSR to further their strictly commercial interests (Orlitzky, Siegel, & Waldman, 2011; Porter & Kramer, 2006). In contrast, however, other researchers have emphasized the importance of intrinsic social motives—we may call this "ethical CSR"—whereby companies engage in social issues as an independent and wholehearted part of their mission (Arnold & Valentin, 2013; Campbell, 2012; Mirvis & Googins, 2006; Windsor, 2006).

In the context of this CSR model research, we suggest that the microfinance industry is an interesting example because it has been uniquely vocal about its dedication to the mission of alleviating poverty. We start by reviewing recent research on the commercialization of microfinance, and thereafter discuss the possibility of a more social business model inspired by poverty-oriented MFIs.

4.1 Commercialization and Mission Drift

A general question that seems to apply to both issues in the previous section is whether or not microfinance ought to be conducted as a commercial venture. It should be noted that most MFIs started out as non-profit organizations, but there has been a recent trend towards commercialization in the industry. In an article in the *New York Times*, Yunus expresses great concern about this trend. He says, "Commercialization has been a terrible wrong turn for microfinance, and it indicates

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

a worrying 'mission drift' in the motivation of those lending to the poor" (Yunus, 2011: 23). To evaluate this statement, we first need to clarify a couple of things.

First, "commercialization" in microfinance might have at least two meanings (Armendáriz & Morduch, 2010). On one reading it means the increased application of market-based principles to MFI management, reflected in MFIs' attempts to make their activities more efficient by mimicking the behavior of commercial companies. This sort of commercialization is probably less controversial, especially in light of the current emphasis on aid efficiency by many development actors (Bourguignon & Sundberg, 2007). Indeed, the whole social enterprise sector seems to share a trend towards commercialization in this sense (Zahra, Ireland, Guiterrez, & Hitt, 2000). On another reading, however, commercialization means the increased use of commercial sources of funding, or the institutional transformation to commercial governance structures that allow for the distribution of dividends. It is true that some MFIs recently have been transformed into for-profit businesses, at times simply because this is legally required in order to take deposits (Schmidt, 2010). This sort of commercialization is probably more controversial.

But why is it controversial? Once again there are two possibilities. On one view, there is something inherently problematic about having pecuniary motives—whether mainly or primarily—when lending to the poor. This seems to be what Yunus is getting at when he says that commercialization "indicates a worrying 'mission drift' in the motivation of those lending to the poor" (Yunus, 2011: 23). We suggest that this view on mission drift connects to the motivational dimension of exploitation outlined above, namely the idea that it may be exploitative and wrong in itself to view someone merely as a means to one's own ends. On another view, however, the real ethical problem lies in the effects of mission drift, in what happens to the poor as a result of MFIs' pecuniary concerns (Sandberg, 2012). We will focus here on the latter view because it more easily lends itself to empirical scrutiny.

A number of recent empirical studies have indicated a trade-off between the financial and social performance of MFIs. For example, Ghosh & van Tassel (2008) argue that MFIs providing larger loans are better able to meet donors' profitability requirements, but typically have lower social performance ("poverty return") since larger loans are designed for relatively wealthier clients. Similarly, Mersland & Strøm (2010) found that some MFIs have abandoned their poorest clientele by increasing the size of loans, and D'espallier, Hudon, and Szafarz (2013) found significantly weaker social performance among institutions that had not received subsidies during the previous five years. Modeling the behavior of MFIs, Armendáriz and Szafarz (2011: 341) found that the trade-off between impact and loan size seems due to "the interplay between [MFIs'] mission, the cost differentials between poor and unbanked wealthier clients, and region-specific clientele parameters." Finally, in a comparative study, Cull et al. (2009) found that typical commercial banks were currently generating considerable attention in the microfinance arena, but that they failed to replicate the outreach of subsidized MFIs. Accordingly, institutions with a strong social mission, rather than with substantial financial means, are best placed to reach and serve the poorest customers.

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

By contrast, Hoepner, Liu, and Wilson (2011) argue that most studies have used a too narrow definition of social responsibility, focused only on average loan size. With a broader definition, they find a positive but non-linear relationship between the social responsibility and financial performance of MFIs. Specifically, there are at least some dimensions of social responsibility for which commercialization can lead to increased social performance.

We conclude from the above studies that microfinance seems to involve starker contrasts than do many other industries. With just a few exceptions, most of this research indicates a trade-off between MFIs' social and financial performance. This is markedly different from the mainstream CSR research, in which the results are varied but many studies indicate a positive relationship between the two (Carroll & Shabana, 2010; Margolis et al., 2007; McWilliams et al., 2006). We take this result concerning MFIs to lend some credence to Yunus's criticism of the trend towards commercialization in microfinance. Before we can fully agree with Yunus's recommendations, however, we must also analyze his alternative model to determine whether there is a viable alternative to commercialization.

4.2 Social Business and Subsidies

As indicated above, Yunus has a different business model in mind for microfinance. What he claims to have discovered when he started the Grameen Bank is that aims typically associated with charitable organizations (such as the aim of alleviating poverty) can be combined with techniques for market survival and growth generally associated with for-profit commercial ventures (Yunus, 1998). In his recent writings, Yunus (2007; 2010) calls this the "social business" model. Some important tenets are that all profits should be reinvested in the organization, no dividends can be distributed to investors, and the only overarching goal should be to alleviate poverty (Yunus, 2010). The model remains a business model, however, because the organization seeks financial self-sufficiency through charging cost-covering interest rates (Yunus, Moingeon, & Lehmann-Ortega, 2010).

It may be interesting to compare Yunus's model with the research on strategic and ethical CSR models. As noted at the outset of the present article, MFIs are often characterized as hybrid institutions that seek to both do good and do well. This echoes the tenets of the ethical CSR model (Battilana & Dorado, 2010; Cull et al., 2009; Morduch, 1999a). In our view, however, Yunus's model actually goes beyond

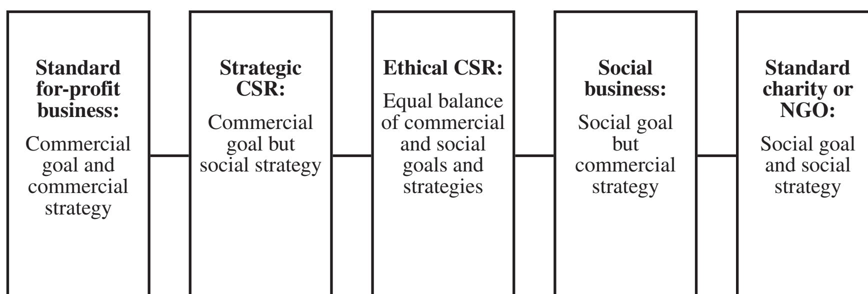

Figure 1: Social business and CSR models

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

the CSR models. This is illustrated in Figure 1, where we distinguish between an organization's overarching goal (an objective that is aimed at for the objective's own sake) and the strategies it uses to further its goal (contingent objectives that depend more on effectiveness and circumstance).[4] Our reason for keeping the social business model separate is Yunus's argument that the social goal should not only be an independent motivation, as with ethical CSR, but that it should be the organization's only overarching goal. In this way, social business can be seen as the mirror image of strategic CSR: Whereas social activities are purely instrumental in strategic CSR (and the real objective is commercial), the commercial technique is purely instrumental for social businesses. Since they are essentially a mix between NGOs and commercial companies, social businesses blur the boundaries between the charitable and the traditional business sectors.

We must now ask whether social businesses work in practice. Recent empirical research on the most poverty-oriented MFIs suggests that there are two main challenges of a financial nature: First, a common topic in the microfinance literature is operational (in)efficiency—the daily challenge of bringing in enough money to cover one's costs (Armendáriz & Morduch, 2010; Prior & Argandoña, 2009). Consistent with the aforementioned research into social versus financial performance, many studies have found a trade-off between efficiency and social performance in MFIs; in other words, they confirm that poverty-oriented MFIs tend to be less efficient (Hermes, Lensink, & Meesters, 2011; Hartarska, Shen, & Mersland, 2013). According to one study, MFIs organized as NGOs try to minimize costs by relying on volunteer work, whereas more commercially oriented MFIs can rely on professional staff to build a more balanced portfolio of loans (Gutiérrez-Nieto, Serrano-Cinca, & Mar Molinero, 2007).

MFIs can increase their operational efficiency in many ways. They may, for example, increase their size (Caudill, Gropper, & Hartarska, 2009), decrease staff turnover, or form partnerships with traditional banks (Sriram, 2005). Another way is by earning additional margins through new products, such as microinsurance and remittances (Armendáriz & Morduch, 2010) or business development services (Sievers & Vandenberg, 2007). But seemingly the most common tactic is to engage with less-poor clients (Armendáriz & Szafarz, 2011; Cull et al., 2009). This is, of course, what makes some MFIs less poverty-oriented than others.

The second challenge facing social businesses concerns funding. Without easy access to capital, commercial organizations will find it harder to start up and grow. This has recently been highlighted as a central challenge to the microfinance industry, especially for poverty-oriented MFIs that refuse to engage with commercial investors (Morduch, 2011; Sonne, 2012). Without access to commercial funding, the main alternative for these institutions would seem to be subsidies from private donors, states, or international aid agencies.

Interestingly, empirical research suggests that subsidies were a large part of the success of the Grameen Bank, probably larger than Yunus himself wants to acknowledge (Morduch, 1999b). More recent evidence from a benchmark sample of MFIs suggests that a majority still take private or public subsidies, for example in the form of direct development aid from industrial nations (Armendàriz & Morduch,

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

2010). According to data from CGAP, private and public donors contributed more than $14 billion to the microfinance industry in 2010, most of which was in the form of loans at concessionary rates (Gähwiler & Negré, 2011). Subsidies may well decrease in the future, though, either because of the financial crisis and its impact on aid budgets or because of the recent criticisms of microfinance.

Donor subsidies can do much good for MFIs. Most obviously, they allow MFIs to focus on the very poorest clients who give little in terms of profit margin. However, subsidies can sometimes also be a problem. For instance, Caudill et al. (2009) find a negative correlation between how much an MFI has received in subsidies and the cost-effectiveness of its operations over time. Similarly, Bogan (2012) studied the impact of MFIs' capital structure and found a positive correlation between the ratio of subsidies (or grants) as a percentage of assets and the cost per borrower, i.e., the ratio of operating expenses to the number of borrowers. These studies indicate that donor subsidies have created a disincentive for some institutions to act efficiently, and this inefficiency has then been passed on to the customer.[5]

We conclude from the above studies that the social business model faces serious financial challenges that seemingly undermine its viability, but we wish to add a further perspective in this context: As demonstrated by the previous analyses in this article, the greatest challenge for poverty-oriented MFIs is actually to demonstrate their impact on poverty alleviation. Specifically, there is seemingly nothing left to justify the social business model unless we believe it has a real social impact. So once again, the central question concerning the justification of various microfinance initiatives is whether they can be proven to have beneficial effects on the poor.

Summarizing our comments on business models, we have argued that microfinance is interesting in the context of the current debate about CSR models because the microfinance industry seems to involve starker contrasts than do many other industries. The current trend towards commercialization would indeed seem detrimental to the social aims of most MFIs. In this context, Yunus's "social business" model may seem more promising, and we have argued that it is unique in its strict emphasis on social goals. Recent research indicates a number of financial challenges for the more poverty-oriented MFIs, however. Furthermore, we have argued that Yunus's greatest challenge is to demonstrate more clearly that microfinance has beneficial effects on poverty alleviation.

5. A CRITICAL RESEARCH AGENDA

In this article, we have reviewed research related to the current ethical crisis in the microfinance sector. We have noted how this sector has been largely neglected in the more critical or philosophical literature, which, in our view, is unfortunate. Microfinance is an interesting test case for several important theoretical issues in business ethics, such as how to define poverty and development, understand exploitation, and view companies with a "social mission." Furthermore, the microfinance sector itself clearly needs to address these ethical issues if it wishes to retain its credibility. To provide direction for further critical research in the future, we have related the

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

results of recent empirical research and outlined some preliminary implications for the more theoretical issues. We close by expanding on some of the research questions raised by our review, organized in relation to what we suggest are the three key ethical issues in microfinance.

The first question concerns the general social or ethical justification for microfinance. We have noted that many scholars have started to question the precise relationship between microfinance and poverty alleviation, or at least to demand further empirical evidence for it. Although a series of ambitious studies on this subject have been performed in recent years, there remains a need for further empirical research on many aspects. However, there is also a need for more critical research that can address theoretical issues such as: What does poverty alleviation really mean? What aspects of poverty are most pressing and should take center stage in corporate activities in the future? And what do we ultimately want from microfinance (what should be its overarching goal)?

The second fundamental question concerns the appropriate behavior for MFIs. We have noted how some MFIs have been accused of charging usurious interest rates, relying on exploitative lending techniques and using forceful loan recovery practices. There is a pressing need for further qualitative empirical research that goes to the bottom of these accusations and investigates the breadth of the problem. However, the accusations also raise a series of interesting questions for philosophical business ethics: To what extent is it a good idea for commercial companies to take part in alleviating poverty (which is seemingly a task for the social services or international development aid)? Should commercial companies be operated differently when they interact with customers who are desperately poor? And, if so, are there any absolute ethical restrictions on such interactions, for example, with regard to the customers' consent or how the cooperative benefits are distributed?

The final fundamental question concerns the characteristics of the ideal microfinance provider. We have noted how empirical studies indicate a likely trade-off between the social and financial performance of MFIs. Further work is needed to better understand this trade-off, as well as to explain the seeming difference between microfinance and other industries in this regard. However, further critical research is also needed to address issues such as: What is the best balance between social and financial aims in commercial enterprises? What are the ethical responsibilities of organizations that can contribute significantly to achieving microfinance's goals but are currently doing very little (such as mainstream commercial banks)? And what are the responsibilities of governments with regard to supporting microfinance—should there indeed be a human right to credit?

NOTES

This article was originally conceived of in conversation with the former editor of *Business Ethics Quarterly*, Gary R. Weaver, during his visit to Solvay Brussels School of Economics and Management in March 2011. The authors are very grateful for many insightful and constructive criticisms from the current editor, Denis G. Arnold, as well as two anonymous referees. This research has been partly carried out in the framework of an Interuniversity Attraction Pole on Social Enterprise funded by the Belgian Science Policy Office.

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

1. Interestingly, then, there seems to be an oversupply of funds to some clients while the vast majority of poor people still lack access to formal financial services. Armendáriz & Labie (2011) see this mismatch between supply and demand as a central challenge of the microfinance industry.

2. A reviewer suggests that the standard view of exploitation is that a transaction can be exploitative on either distributive or procedural terms. In other words, it does not need to fail on both grounds, either is sufficient. In contrast, the motivational element should best be understood as a necessary but not sufficient one; that is, disrespectful intent without unfairness or coercion is not exploitation.

3. It should be noted that not all MFIs engage in group lending and that many have shifted to individual loans. This is partly due to client complaints about wasting time during meetings, as well as emerging tensions in the groups, and the risk of joint default of group members (Armendáriz & Morduch, 2010). Alternative lending techniques have also been developed, such as loans backed by movable assets (e.g., animals) or by consumer goods (e.g., refrigerators). These techniques allow MFIs not to ask for any financial collateral. To ensure that clients will have the money to repay their loans, some MFIs have decided to provide the asset (the machinery or animal) instead of a loan (Safavian, Graham, & Gonzalez-Vega, 2001). Finally, some MFIs are asking for guarantors, who can be the borrower's spouse or, sometimes, any person accepting to be liable. Interestingly, some of these "innovations" seem to make microfinance less unique and more akin to traditional or mainstream banking.

4. This classification is in line with previous scholarship on social enterprises, such as in Alter (2007) and Dees (1998).

5. The solution is probably to provide better-targeted subsidies. For example, Armendáriz & Morduch (2010) argue that donors should try to provide "smart subsidies" that maximize social benefits while minimizing distortions, mistargeting and inefficiencies. Examples of smart subsidies include start-up expenses, and training or guarantee funds that could help to raise additional funds. Accordingly, these interventions are often time-limited, rule-bound and transparent.

REFERENCES

Abraham, R., Kast, F., & Pomeranz, D. 2011. ***Insurance through savings accounts: Evidence from a randomized field experiment among low-income micro-entrepreneurs in Chile***. Harvard University, Working Paper.

Agier, I., & Szafarz, A. 2013. Microfinance and gender: Is there a glass ceiling on loan size? ***World Development***, 42: 65–181. http://dx.doi.org/10.1016/j.worlddev.2012.06.016

Ahmed, H. 2010. Fund transfer allegation against Prof. Yunus needs inquiry: PM. ***Financial Express***, 6 December.

Alsop, R. (Ed.). 2005. ***Power, Rights, and Poverty: Concepts and Connections***. Washington, DC: The World Bank.

Alter, K. 2007. Social Enterprise Typology. http://www.virtueventures.com/resources/setypology.

Angelucci, M., Karlan, D., & Zinman, J. 2013. ***Win some lose some? Evidence from a randomized microcredit program placement experiment by Compartamos Banco***. Working Paper, Economic Growth Center, Yale University.

Armendáriz, B., & Labie, M. 2011. ***The Handbook of Microfinance***. Singapore: World Scientific.

Armendáriz, B., & Morduch, J. 2010. ***The Economics of Microfinance***, 2nd ed. Cambridge, MA: The MIT Press.

Armendáriz, B., & Szafarz, A. 2011. On mission drift in microfinance institutions. In B. Armendáriz and M. Labie (Eds.), ***The handbook of microfinance***. Singapore: World Scientific. http://dx.doi.org/10.1142/9789814295666_0016

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

Arneson, R. 2007. Broadly utilitarian theories of exploitation and multi-national clinical research. In E. Emanuel and J. Hawkins (Eds.), ***Exploitation and developing countries***. Princeton, NJ: Princeton University Press.

Arnold, D. G. 2010. Transnational corporations and the duty to respect basic human rights. ***Business Ethics Quarterly***, 20(3): 371–99. http://dx.doi.org/10.5840/beq201020327

———. 2013. Global justice and international business. ***Business Ethics Quarterly***, 23(1): 125–43. http://dx.doi.org/10.5840/beq20132315

Arnold, D. G., & Valentin, A. 2013. Corporate social responsibility at the base of the pyramid. ***Journal of Business Research***, 66: 1904–14. http://dx.doi.org/10.1016/j.jbusres.2013.02.012

Ashraf, N., Karlan, D., & Yin, W. 2010. Female empowerment: Further evidence from a commitment savings product in the Philippines. ***World Development***, 38(3): 333–44.

Banerjee, A., Duflo, E., Glennerster, R., & Kinnan, C. 2010. ***The miracle of microfinance: Evidence from a randomized evaluation***. MIT Working Paper, Boston.

Bateman, M. 2010. ***Why doesn't microfinance work?*** London: Zed Books.

Battilana, J., & Dorado, S. 2010. Building sustainable hybrid organizations: The case of commercial microfinance organizations. ***Academy of Management Journal***, 53(6): 1419–40. http://dx.doi.org/10.5465/AMJ.2010.57318391

Biosca, O., Lenton, P., & Mosley, P. 2013. ***Where is the "plus" in "credit plus"? The case of Chiapas, Mexico***. Manuscript.

Bogan, V. 2012. Capital structure and sustainability: An empirical study of microfinance institutions. ***The Review of Economics and Statistics***, 94(4): 1045–58. http://dx.doi.org/10.1162/REST_a_00223

Bourguignon, F., & Sundberg, M. 2007. Aid effectiveness: Opening the black box. ***American Economic Review***, 97(2): 316–21. http://dx.doi.org/10.1257/aer.97.2.316

Brune, L., Gine, X., Goldberg, J., and Yang, D. 2011. ***Commitments to save: A field experiment in rural Malawi***. Policy Research Working Paper Series 5748, The World Bank.

Buchanan, A. 1988. ***Ethics, efficiency, and the market***. New York: Rowman and Littlefield.

Campbell, T. 2012. Corporate social responsibility: Beyond the business case to human rights. In W. Cragg (Ed.), ***Business and human rights***. Cheltenham: Edward Elgar, 47–73. http://dx.doi.org/10.4337/9781781005774.00008

Carroll, A. B., & Shabana, K. M. 2010. The business case for corporate social responsibility. ***International Journal of Management Reviews***, 12(1): 85–105. http://dx.doi.org/10.1111/j.1468-2370.2009.00275.x

Caudill S. B., Gropper, D., & Hartarska, V. 2009. Which microfinance institutions are becoming more cost effective with time? Evidence from a mixture model. ***Journal of Money, Credit and Banking***, 41(4): 51–67. http://dx.doi.org/10.1111/j.1538-4616.2009.00226.x

Collins, D., Morduch, J., Rutherford, S., & Ruthven, O. 2009. ***Portfolios of the poor: How the world's poor live on $2 a day***, Princeton, NJ: Princeton University Press.

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

Copestake J. 2007. Mainstreaming microfinance: Social performance management or mission drift? ***World Development***, 35(10): 1721–38. http://dx.doi.org/10.1016/j.worlddev.2007.06.004

Counts, A. 2008. Reimagining microfinance. ***Stanford Social Innovation Review*** (Summer): 46–53.

Cragg, W. 2012. Ethics, enlightened self interest and the corporate responsibility to respect human rights: A critical look at the justificatory foundations of the proposed UN human rights framework. ***Business Ethics Quarterly***, 22(1): 9–36. http://dx.doi.org/10.5840/beq20122213

Cull, R., Demirguc-Kunt, A. & Morduch, J. 2009. Microfinance meets the market. ***Journal of Economic Perspectives***, 23(1): 167–92. http://dx.doi.org/10.1257/jep.23.1.167

Dees, J. G. 1998. Enterprising Nonprofits. ***Harvard Business Review*** 76(1): 54–67.

de Mel, S., McKenzie, D., & Woodruff, C. 2008. Returns to capital in microenterprises: Evidence from a field experiment. ***The Quarterly Journal of Economics***, 123(4): 1329–72. http://dx.doi.org/10.1162/qjec.2008.123.4.1329

Demirguc-Kunt, A., & Klapper, L. 2012. ***Measuring financial inclusion: The global findex***. World Bank Policy Research Working Papers, 6025.

D'espallier, B., Hudon, M., & Szafarz, A. 2013. Unsubsidized microfinance institutions, ***Economics Letters***, 12(2): 174–76. http://dx.doi.org/10.1016/j.econlet.2013.04.021

Doyal, L., & Gough, I. 2007. ***A theory of human need***. New York: Palgrave MacMillan.

Dupas, P., & Robinson, J. 2013. Savings constraints and microenterprise development: Evidence from a field experiment in Kenya. ***American Economic Journal: Applied Economics***, 5(1): 163–92.

Duvendack, M., Palmer-Jones, R., Copestake, J. G., Hooper, L., Loke, Y., & Rao, N. 2011. ***What is the evidence of the impact of microfinance on the well-being of poor people?*** London: EPPI-Centre, University of London.

Ehrbeck, T., Pickens, M., & Tarazi, M. 2012. ***Financially inclusive ecosystems: The roles of government today***. Washington, DC: CGAP.

Ellerman, D. 2007. Microfinance: Some conceptual and methodological problems. In T. Dichter & M. Harper (Eds.), ***What's wrong with microfinance?*** Rugby: Practical Action Publishing.

Emerson, J. 2003. The blended value proposition: Integrating social and financial returns. ***California Management Review***, 45(4): 35–51. http://dx.doi.org/10.2307/41166187

Fafchamps, M., McKenzie, D., Quinn, S., & Woodruff, C. 2011. ***When is capital enough to get female microenterprises growing? Evidence from a randomized experiment in Ghana***. NBER Working Papers 17207, National Bureau of Economic Research.

Fernando, N. A. 2006. ***Understanding and dealing with high interest rates on microcredit***. Manila: Asian Development Bank.

Gähwiler, B., & Negré, A. 2011. ***Trends in cross-border funding***. Washington, DC: CGAP.

Garikipati, S. 2008. The impact of lending to women on household vulnerability and women's empowerment: Evidence from India. ***World Development***, 36(12): 2620–42. http://dx.doi.org/10.1016/j.worlddev.2007.11.008

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

———. 2013. Microcredit and women's empowerment: Have we been looking at the wrong indicators? ***Oxford Development Studies***, 41: 53–76. http://dx.doi.org/10.1080/13600818.2012.744387

Ghatak, M., & Guinnane, T. W. 1999. The economics of lending with joint liability: Theory and practice. ***Journal of Development Economics***, 60: 195–228. http://dx.doi.org/10.1016/S0304-3878(99)00041-3

Ghosh, S., & Van Tassel, E. 2008. ***A model of microfinance and mission drift***. Department of Economics, Florida Atlantic University.

Goodin, R. E. 1987. Exploiting a situation and exploiting a person. In A. Reeve (Ed.), ***Modern theories of exploitation***. London: Sage, 166–200.

Guérin, I., Kumar, S., & Agier, I. 2013. Women's empowerment: Power to act or power over other women? Lessons from Indian microfinance. ***Oxford Development Studies***, 41: 76–95. http://dx.doi.org/10.1080/13600818.2013.781147

Gutiérrez-Nieto, B., Serrano-Cinca, C., & Mar Molinero, C. 2007. Microfinance institutions and efficiency. ***Omega: International Journal of Management Science***, 2: 131–42.

Harper, M. 2005. Farm credit and microfinance: Is there a critical mismatch? ***Small Enterprise Development***, 16(3): 58–67. http://dx.doi.org/10.3362/0957-1329.2005.034

———. 2007. What's wrong with groups? In T. Dichter & M. Harper (Eds.), ***What's wrong with microfinance?*** Rugby: Practical Action Publishing.

Hartarska, V., Shen, X., & Mersland, R. 2013. Scale economies and elasticities of substitution in microfinance institutions. ***Journal of Banking and Finance***, 37(1): 118–31. http://dx.doi.org/10.1016/j.jbankfin.2012.08.004

Heineman, T. 2010. ***The micro debt***, documentary produced for Norwegian television.

Hermes, N., Lensink, R., & Meesters, A. 2011. Outreach and efficiency of microfinance institutions. ***World Development***, 39(6): 938–48. http://dx.doi.org/10.1016/j.worlddev.2009.10.018

Hoepner, A., Liu, H. & Wilson, J. 2011. ***Do microfinance institutions (MFIs) pay for social responsibility? Evidence from social ratings of MFIs***. University of St. Andrews.

Holvoet, N. 2004. The impact of microfinance on decision-making agency: Evidence from South India. ***Development and Change***, 35(5): 937–62.

Hudon, M. 2009. Should access to credit be a right? ***Journal of Business Ethics***, 84: 17–28. http://dx.doi.org/10.1007/s10551-008-9670-y

———. 2011. Ethics in microfinance. In B. Armendáriz & M. Labie (Eds.), ***The handbook of microfinance***. Singapore: World Scientific. http://dx.doi.org/10.1142/9789814295666_0006

Hudon, M., and Ashta, A. 2013. Fairness and microcredit interest rates: From Rawlsian principles of justice to the distribution of the bargaining range. ***Business Ethics: A European Review***, 22(3): 277–91.

Hulme, D., & Arun, T. 2011. ***What's wrong and right with microfinance: Missing an angle on responsible finance?*** Working paper, Brooks World Poverty Institute.

Hulme, D., & Mosley, P. 1996. ***Finance against poverty***, vol 1. London: Routledge.

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

Jackelen, H. R., & Rhyne, E. 1991. Towards a more market-oriented approach to credit and savings for the poor. ***Small Enterprise Development***, 2(4): 4–20. http://dx.doi.org/10.3362/0957-1329.1991.037

Karlan, D., & Zinman, J. 2010. Expanding credit access: Using randomized supply decisions to estimate the impacts. ***Review of Financial Studies***, 23(1): 433–64. http://dx.doi.org/10.1093/rfs/hhp092

Karnani, A. 2011. Undermining the chances of sustainable development in India with microfinance. In M. Bateman (Ed.), ***Confronting microfinance: Undermining sustainable development***. Sterling, VA: Kumarian Press.

Khandker, S. 1998. ***Fighting poverty with microcredits***. Oxford: Oxford University Press.

Lenoir, R. 1989. ***Les exclus: Un francais sur dix***. Paris: Editions du Seuil.

Lewis, J. C. 2008. Microloan sharks. ***Stanford Social Innovation Review***, 6(3): 54–59.

Mair, J., & Marti, I. 2006. Social entrepreneurship research: A source of explanation, prediction, and delight. ***Journal of World Business***, 41(1): 36–44. http://dx.doi.org/10.1016/j.jwb.2005.09.002

Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. 2007. ***Does it pay to be good?*** Working paper, Harvard Business School.

Mayoux, L. 2001. Tackling the down side: Social capital, women's empowerment and micro-finance in Cameroon. ***Development and Change***, 32(3): 435–64. http://dx.doi.org/10.1111/1467-7660.00212

McKenzie, D., & Woodruff, C. 2008. ***Experimental evidence on returns to capital and access to finance in Mexico?*** World Bank Economic Review, 22(3): 457–82. http://dx.doi.org/10.1093/wber/lhn017

McWilliams, A., Siegel, D. S., & Wight, P. M. 2006. Corporate social responsibility: Strategic implications. ***Journal of Management Studies***, 43(1): 1–18. http://dx.doi.org/10.1111/j.1467-6486.2006.00580.x

Meier, S., & Sprenger, C. 2010. Present-biased preferences and credit card borrowing. ***American Economic Journal: Applied Economics***, 2(1): 193–210.

Mersland, R., & Strøm, T. 2010. Microfinance mission drift? ***World Development***, 38(1): 28–36. http://dx.doi.org/10.1016/j.worlddev.2009.05.006

Meyer, R. L. 2007. Measuring the impact of microfinance. In T. Dichter & M. Harper (Eds.), ***What's wrong with microfinance?*** Rugby: Practical Action Publishing

Mirvis, P., & Googins, B. 2006. Stages of corporate citizenship. ***California Management Review***, 48(2): 104–26. http://dx.doi.org/10.2307/41166340

Montgomery, R. 1996. Disciplining or protecting the poor? Avoiding the social costs of peer pressure in micro-credit schemes. ***Journal of International Development***, 8(2): 289–305. http://dx.doi.org/10.1002/(SICI)1099-1328(199603)8:2<289::AID-JID368>3.0.CO;2-2

Morduch, J. 1999a. The microfinance promise. ***Journal of Economic Literature***, 37: 1569–1614. http://dx.doi.org/10.1257/jel.37.4.1569

_________. 1999b. The role of subsidies in microfinance: Evidence from the Grameen Bank. ***Journal of Development Economics***, 60(1): 229–48. http://dx.doi.org/10.1016/S0304-3878(99)00042-5

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

———. 2011. Not so fast: The realities of impact investing. ***Americas Quarterly***, 5(4): 78–83.

———. 2013. ***How microfinance really works***. CERMi Seminar, 18 March 2013.

Morvant-Roux, S., Guérin, I., Roesch, M., & Moisseron, J.-Y. Forthcoming. Explaining participation and repayment in microcredit schemes in rural Morocco: The role of social norms and actors. ***World Development***.

Munzer, S. 1990. ***A theory of property***. Cambridge: Cambridge University Press. http://dx.doi.org/10.1017/CBO9780511609138

Nickel, J. 2005. Poverty and rights. ***The Philosophical Quarterly***, 55 (200): 385–402. http://dx.doi.org/10.1111/j.0031-8094.2005.00406.x

Nussbaum, M. 2000. ***Women and human development: The capabilities approach***. Cambridge: Cambridge University Press. http://dx.doi.org/10.1017/CBO9780511841286

Orlitzky, M., Siegel, D. S., Waldman, D. A. 2011. Strategic corporate social responsibility and environmental sustainability. ***Business & Society***, 50(1): 6–27. http://dx.doi.org/10.1177/0007650310394323

Pattenden, J. 2010. A neoliberalisation of civil society? Self-help groups and the labouring class poor. ***Journal of Peasant Studies***, 37(3): 485–509. http://dx.doi.org/10.1080/03066150.2010.494372

Pitt, M., & Khandker, S. R. 1996. ***Household and intrahousehold impact of the Grameen Bank and similar targeted credit programs in Bangladesh***. World Bank, Discussion Paper no. 320.

Pogge, T. 2002. ***World poverty and human rights: Cosmopolitan responsibilities and reforms***. Cambridge: Polity Press.

Pohl, M., & Tolhurst, N. (Eds.), 2010. ***Responsible business: How to manage a CSR strategy successfully***. Chichester: John Wiley & Sons.

Porter, M., & Kramer, M. 2006. Strategy and society: The link between competitive advantage and corporate social responsibility. ***Harvard Business Review***, 84: 78–92.

Prina, S. 2013. ***Banking the poor via savings accounts: Evidence from a field experiment.*** Case Western University, Working Paper.

Prior, F., & Argandoña, A. 2009. Credit accessibility and corporate social responsibility in financial institutions: The case of microfinance. ***Business Ethics: A European Review***, 18(4): 349–63.

Priyadarshee, A., & Ghalib, A. K. 2012. Over-indebtedness, coercion, and default: Causes of the Andhra Pradesh microfinance crisis and regulatory implications. ***Enterprise Development and Microfinance***, 23(3): 185–200. http://dx.doi.org/10.3362/1755-1986.2012.020

Rankin, K. N. 2002. Social capital, microfinance and the politics of development. ***Feminist Economics***, 8(1): 1–24. http://dx.doi.org/10.1080/13545700210125167

Ravi, S., & Rai, A. 2011. Do spouses make claims? Health seeking and microfinance in India. ***World Development***, 39(6): 913–21. http://dx.doi.org/10.1016/j.worlddev.2009.10.019

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

Reed, L. R. 2013. ***Vulnerability: The state of the microcredit summit campaign report***. Washington, DC: Microcredit Summit Campaign.

Reeve, A. 1987. ***Modern theories of exploitation***. London: Sage.

Results. 2006. ***A conversation with Mohammad Yunus***. Washington, D.C.: RESULTS.

Rhyne, E., & Guimon, A. 2007. The Banco Compartamos initial public offering, ***ACCION InSight***, no. 23, June 2007.

Roodman, D. 2012. ***Due diligence: An impertinent inquiry into microfinance***. Washington, D.C.: Center for Global Development.

Rosenberg, R. 2007. CGAP reflections on the Compartamos initial public offering: A case study on microfinance interest rates and profits. ***CGAP Focus Note*** 42. Washington D.C.:, CGAP.

Rosenberg, R., Gonzalez, A., & Narain, S. 2009. The new moneylenders: Are the poor being exploited by high microcredit interest rates? ***CGAP Occasional Paper*** 15. Washington DC: CGAP.

Safavian M., Graham D., & Gonzalez-Vega, C. 2001. Corruption and microenterprises in Russia. ***World Development***, 29(7): 1215–24. http://dx.doi.org/10.1016/S0305-750X(01)00036-5

Sandberg, J. 2012. Mega-interest on microcredit: Are lenders exploiting the poor? ***Journal of Applied Philosophy***, 29(3): 169–85. http://dx.doi.org/10.1111/j.1468-5930.2012.00560.x

Schicks, J. 2013. Microfinance over-indebtedness: Understanding its drivers and challenging the common myths. ***Oxford Development Studies***, 41: 95–117. http://dx.doi.org/10.1080/13600818.2013.778237

Schmidt, R. 2010. Microfinance, commercialization and ethics. ***Poverty & Public Policy***, 2(1): 1–6.

Sen, A. 1999. ***Development as freedom***. New York: Anchor Books.

Servet, J. M. 2011. Corporate responsibility versus social performance and financial inclusion. In B. Armendáriz & M. Labie (Eds.), ***The handbook of microfinance***. Singapore: World Scientific, 301–23. http://dx.doi.org/10.1142/9789814295666_0014

Shue, H. 1996. ***Basic rights: Subsistence, affluence, and U.S. foreign policy***, 2nd edition. Princeton, NJ: Princeton University Press.

Shylendra, H. S. 2006. Microfinance institutions in Andhra Pradesh: Crisis and diagnosis. ***Economic and Political Weekly*** (20 May): 1959–63.

Sievers, M., & Vandenberg, P. 2007. Synergies through linkages: Who benefits from linking micro-finance and business development services? ***World Development***, 35(8): 1341–98. http://dx.doi.org/10.1016/j.worlddev.2007.04.002

Silver, H. 1995. Reconceptualizing social disadvantge: Three paradigms of social exclusion. In G. Rodgers, C. Gore, & J. Figueredo (Eds.), ***Social exclusion: Rhetoric, reality, responses***. Geneva: International Institute for Labour Studies.

Snyder, J. 2010. Exploitation and sweatshop labor: Perspectives and Issues. ***Business Ethics Quarterly***, 20(2): 187–213. http://dx.doi.org/10.5840/beq201020215

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press

Sonne, L. 2012. Innovative initiatives supporting inclusive innovation in India. ***Technological Forecasting & Social Change***, 79(4): 638–47. http://dx.doi.org/10.1016/j.techfore.2011.06.008

Sriram, M. 2005. Microfinance and the state: Exploring areas and structures of collaboration. ***Economic and Political Weekly***, 40(7): 1699–1703.

Steiner, H. 1984. A liberal theory of exploitation. ***Ethics***, 94: 225–41. http://dx.doi.org/10.1086/292529

Weber, H. 2002. The imposition of a global development architecture: The example of microcredit. ***Review of International Studies***, 28(3): 537–55. http://dx.doi.org/10.1017/S0260210502005375

———. 2004. The "new economy" and social risk: Banking on the poor? ***Review of International Political Economy***, 11(2): 356–86. http://dx.doi.org/10.1080/09692290420001672859

Wertheimer, A. 1996. ***Exploitation***. Princeton, NJ: Princeton University Press.

Windsor, D. 2006. Corporate social responsibility: Three key approaches. ***Journal of Management Studies***, 43: 93–114. http://dx.doi.org/10.1111/j.1467-6486.2006.00584.x

Wood, S. 2012. The case for leverage-based corporate human rights responsibility. ***Business Ethics Quarterly***, 22(1): 63–98. http://dx.doi.org/10.5840/beq20122215

Yunus, M. 1998. ***Banker to the poor***. Dhaka: The University Press Limited.

———. 2002. ***A national strategy for economic growth and poverty reduction***. Dhaka: Sustainable Development Networking Programme.

———. 2007. ***Creating a world without poverty: Social business and the future of capitalism***. New York: PublicAffairs.

———. 2010. ***Building social business: Capitalism that can serve humanity's most pressing needs***. New York: PublicAffairs.

———. 2011. Sacrificing microcredit for megaprofits. ***The New York Times***, January 14.

Yunus, M., Moingeon, B., & Lehmann-Ortega, L. 2010. Building social business models: Lessons from the Grameen experience. ***Long Range Planning***, 43(2–3): 308–25. http://dx.doi.org/10.1016/j.lrp.2009.12.005

Zahra, S., Ireland, D., Guiterrez, I., & Hitt, M. 2000. Privatization and entrepreneurial transformation: A review and research agenda. ***Academy of Management Review***, 25: 509–24.

Zwolinski, M. 2007. Sweatshops, choice, and exploitation. ***Business Ethics Quarterly***, 17(4): 689–727. http://dx.doi.org/10.5840/beq20071745

———. 2008. The ethics of price gouging. ***Business Ethics Quarterly***, 18(3): 347–78. http://dx.doi.org/10.5840/beq200818327

https://doi.org/10.5840/beq201323440 Published online by Cambridge University Press