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**International Support for Microfinance**

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for

Dr. Diehl - Spring 2019 PSCI 6319

### Introduction

In the 1970s, economics professor Muhammad Yunus noticed that the poorest women in Jobra, Bangladesh needed money to buy bamboo to make goods for sell. Dr. Yunus began making small loans with moderate interest rates to these women, earned a return, and improve their lives. He later founded Grameen Bank to continue making these loans and in 2006 won the Nobel Peace Prize for his efforts. Professor Yunus' insight created the modern idea of microfinance (Marotta 2014). Microfinance has now developed worldwide. However, "although 700 million people have gained access to formal financial services ... 2 billion remain excluded" (Beck, 2015).

Data is difficult to obtain on how microfinance institutions (MFI) finance their lending activities, but anecdotal evidence suggests that MFIs receive capital from non-governmental organizations (NGOs), as well as national governments (Garmaise & Natividad, 2013). One study found that 38% of MFIs had an international initiator and 51% had some form of international subsidized debt (Mersland, Randøy, & Strøm 2011). International funding can represent a large portion of a MFI's balance sheet. A selective study noted that MFIs received approximately 20% of their financing from multilateral agencies and bilateral donors, and another 10% from international NGOs (Jansson, 2003). It is likely that MFIs will continue to require international and national government support in the future. As stated by Adams & Raymond, "without subsidies, over 90 percent of microfinance operations would disappear in a few years" (Adams & Raymond, 2008 p. 442).

Global multilateral development banks (GDB) are one source of MFI international funding. GDBs can have wide geographical scope and vary in size considerably; ranging from the World Bank's 189 members to the New Development Bank's five members (Engen & Prizzon, 2018 p. 17). GDBs are generally controlled by the shareholding countries through a voting process. Often these shareholders have veto power when their shareholdings are large enough. Not surprisingly, the US, Germany, and Japan are most commonly among the top five GDBs shareholders but that hegemony is not absolute. Many other countries, for example, India, China, Saudi Arabia, France, etc., often appear as large shareholding members (p. 19).

### Research Question

The purpose of this paper will be to hypothesize under three different international theories the explanations for GDBs and international NGOs - hereafter referred to as international organizations (IO) - selection of which countries to support the development of MFIs and to propose methods for testing each hypothesis.

The specific research question is:

**Under what circumstances do IOs select countries to receive funding support for microfinancing institutions?**

While not always true (see Berthélemy & Tichit, 2004), it is clear that low-income and low-middle-income countries with development needs will most likely be the target

for international support. However, the need factor alone does not fully explain why one country receives international support while others do not; and there is evidence that international relationships impact the amount and terms of MFI financing (Garmaise & Natividad, 2013). Better understanding the factors lending to IO funding of a country's MFI programs has important implications for both the IO and, more importantly, for the potential recipient countries. From the IO perspective, divining the answers will help members better articulate the rationale for their choices. From the recipient country's perspective knowing the factors contributing to IO support will help in efficiently targeting their current aid seeking efforts and also help in creating strategies to match their future actions to IO decision making patterns.

### **Neorealism Based Hypotheses**

#### **Introduction**

Neorealist believe the international system to be anarchic. That is, the absence of central authority (Waltz, 1979). States are sovereign and thus autonomous of each other; no inherent structure or society can emerge or even exist to order relations between them. They are bound only by forcible coercion or by consent. In such an anarchic system, state power is the the only variable of interest. Thus realist general contend that only through power can states defend themselves and survive (Anne-Marie & Thomas, 2013).

## Hypothesis #1

### Hypothesis

International funding of microfinance programs will occur more frequently when the recipient country has a defense security agreement with an IO's major voting shareholder(s).

### Theoretical Support

Realism understands power generally in three ways: militarily, economically, or diplomatically. However, the theory emphasizes military / material capacity. This vision of the world rests on four assumptions (Mearsheimer, 1994). First, survival is the principal goal of every state. Foreign invasion is a threat to all states.

Despite what otherwise important domestic interests or cultural norms might dictate the anarchy of the international system requires that states ensure the power to defend themselves through their own material power or through, as Defense Realist (Waltz, 1979) propose, a balance of power between states. A balance of power is the distribution of power among states, particularly, the larger more powerful states. Second, realists hold that states are rational actors such that they will act in order to maximize their likelihood of continual existence.

Third, realists contend that no state can be sure of how another state will deploy its material resources. That is, each state must be in fear of other state's aggression. Finally, in such a world the state(s) with the most clout will be the survivors (Anne-Marie & Thomas, 2013). Under this theory, we would expect

hypothesis #1 to hold, as the hypothesis directly supports the contention that military is paramount and as such we would expect countries cooperating militarily with an IO's major voting shareholder(s) to receive greater support.

### Testing Proposal

In order to test this hypothesis, information on the amount of international funding issued by IOs to recipient countries could be correlated with the major shareholding countries of the IOs to determine whether the recipient and major shareholders had a defense security agreement.

## Hypothesis #2

### Hypothesis

International funding of microfinance programs will occur more frequently when the recipient country is a trading partner with an IO's major voting shareholder(s).

### Theoretical Support

As noted above, realism understands power generally in three ways: militarily, economically, or diplomatically (Slaughter, 2011). One way for a country to enhance its own economic power is to increase the purchasing power of a trading partner. Therefore, directing international funding toward your state's preferred trading partner is a sound strategy for increasing your state's economic power (Martínez-Zarzoso, Nowak-Lehmann, & Klasen 2010). Under this theory, we would expect hypothesis #2.

### Testing Proposal

A testing scheme for this hypothesis might proceed along a strategy of gathering IO MFI funding arrangements and correlating the fundings to the major voting IO shareholder(s) trade agreements and/or import/export valuation. Additionally, agreements could be scrutinized for any reciprocal – strings attached – arrangements with the major voting IO shareholder(s).

### Hypothesis #3

#### Hypothesis

International funding of microfinance programs will occur in deviation to the mission statement of an IO when the recipient country is an ally of an IO's major voting shareholder(s).

#### Theoretical Support

Realists believe that facets of international relations are epiphenomenal. They do not influence a state's actions but rather reflect the balance of power. States may create IOs, and may enforce the rules when appropriate but it is the underlying material interests and power relations that guide state action. IOs are a symptom of state behavior, not a cause (Slaughter, 2011). Like most large organizations, IOs have mission statements (Adam Cobb, Wry, & Zhao 2016). They operate according to a logic (Von Stauffenberg & Rosas, 2011). However, under realism this is not be a controlling factor and allies are likely to receive funding even if the request deviates from the IO's mission.

### Testing Proposal

This hypothesis can be tested by gathering IO mission statements, examining the proposed investment opportunities, and tracing the actual lending. Discovering a sufficient number of lending activity that inures to the material, economic, or diplomatic benefit of a major voting shareholding(s)' country but deviates from the IO's mission statement would support this hypothesis.

## **Neoliberalism (Institutionalism) Based Hypotheses**

### Introduction

Neoliberalist / Institutionalists share many of realism's assumptions about the international system, namely: it is anarchic, states are self-interested rational actors seeking to survive through improving their material power, and uncertainty regarding each other's actions exists between states. However, neoliberalism relies on microeconomic theory (i.e. utility-maximizing behavior) and game theory to reach the conclusion that co-operation between countries is possible (Slaughter, 2011). The central insight is that if state actors have some mutual interest and that the degree of institutionalization in the world politic exerts some influence over state behavior, then co-operation may be a rational self-interested strategy for countries to pursue (Keohane, 1984).



## Hypothesis #1

### Hypothesis

International funding of microfinance programs will occur more frequently when the recipient country has complied with a greater number of past international agreements when compared to other countries.

### Theoretical Support

One of the principals of neoliberalism is that international institutions extend the time horizon of interactions, creating an iterative rather than single round game. Because the game becomes iterative, each country knows they will have to interact with the same partners repeatedly through an international institution. This in turn means that they will have incentives to comply with agreements in the short term so that they might continue to extract long term benefits. Thus, international institutions are a means by which a country can receive utility from a good reputation (Slaughter, 2011). If this good reputation theory holds, then those with such international reputations should have an advantage in receiving IO support for microfinance programs.

### Testing Proposal

This hypothesis can be tested by collecting all available request for IO microfinance lending support and comparing that to the actual IO's microfinance lending programs by recipient countries. Each approved and non-approved

lending support program could be correlated with the requesting countries reputation for complying with its international agreements.

## Hypothesis #2

### Hypothesis

International funding of microfinance programs will occur more frequently when the recipient country provides the international community with consistent and reliable economic data.

### Theoretical Support

Institutionalists argue that one of the reasons that states cooperate through institutions is that institutions increase information about other state's behavior. Uncertainty is one reason realists doubt cooperation is possible. International institutions collect information about state behavior allowing states to make judgments about each other. This reduce uncertainty and increases international cooperation (Slaughter, 2011). In relation to economic data, states are generally requested to gather and submit that data to IOs on a periodic basis. When a country consistently and accurately submits economic information it increases the validity of that information and enhances its data collection reputation. Good data is important for investment decisions. Therefore, consistent and accurate economic data should be a positive factor in an IO's decision to support a country's MFI efforts.

### Testing Proposal

This hypothesis can be evaluated by collecting all available request for IO microfinance lending support and comparing that to the actual IO's microfinance lending programs by recipient country. Each approved and non-approved lending support program could be correlated with the requesting countries effectiveness in consistently and accurately supplying economic data to the international community.

### Hypothesis #3

#### Hypothesis

A country seeking international funding of a microfinance program will be more likely to succeed in those efforts when they participate in the same international institutions which MFI IO funding institutions also participate.

#### Theoretical Support

Institutionalists note that institutions can greatly increase international efficiency. State negotiation transaction costs decrease when states have established centralized forms than when they interact on an ad hoc basis. Institutions provide those forms, increasing the efficiency of coordination, and reducing costs. They also provide 'focal points' that allow states to quickly settle on courses of actions (Slaughter, 2011). Therefore, the greater the number of international organizations that a country participates in, which are also participated by MFI IO funding institutions, the greater the opportunity the recipient country will have to discuss MFI funding opportunities. Additionally, MFI funding IOs are likely to

consider the ability to interact with the recipient country in multiple international forums a positive advantage for negotiation and monitoring.

### Testing Proposal

This hypothesis can be tested by collecting the universe of all microfinancing support agreement proposals and correlating the proposals funded and not funded with the number of funding IO's and recipient country's mutual international institutions memberships.

## **Feminism Based Hypotheses**

### Introduction

This paper began with reference to how the entire microfinance industry began when Dr. Yunus noticed that the poorest women in Bangladesh needed to borrow money (Marotta 2014). As such it seems fitting to evaluate feminism based hypotheses as a final theory. Feminism's political language and aims emerged from the French Revolution and the Enlightenment (Miller, 1991). However, feminist theories did not entered the discipline of international relations until the late 1980s and early 1990s. Early international relations feminists challenged the discipline to think about how its understandings of global politics might be changed if it were to pay attention to women's experiences. Since most women speak from the margins of international politics, they live outside the focus of conventional international theories and can offer a different perspective (Dunne, Kurki, & Smith, 2016).

## Hypothesis #1

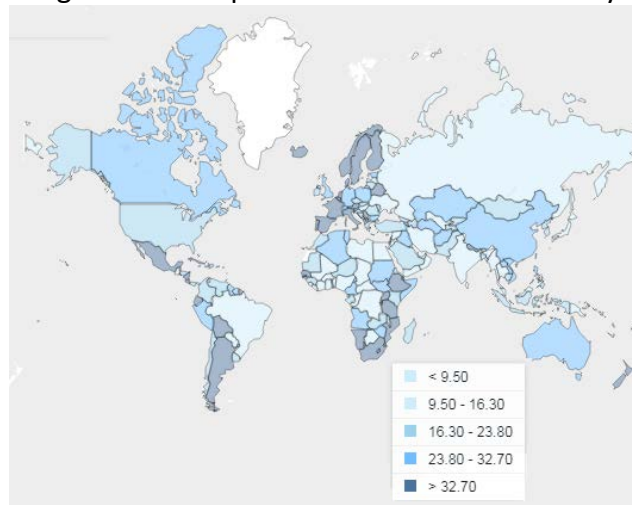
### Hypothesis

Countries with greater female representation in parliamentary bodies will be more likely to seek international support for MFI.

### Theoretical Support

Feminists have sought to draw attention to women's under-representation in politics and the global economy (Dunne, Kurki, & Smith, 2016). Despite much progress in recent decades, gender inequalities remain pervasive in many dimensions of life. As the below map indicates, the percentage of women's representation in parliamentary bodies is still quite low:

Percentage Female Representation in Parliamentary Bodies



Source: The World Bank

Disparities exist throughout the world but they are most prevalent in developing countries (World Bank, Parliaments, n.d.). While the female global representation might be low, studies have found that female participation in MFI

management improves MFI performance. For example, one study found that MFI performance improves when MFI boards have a higher share of female members (Mori, et al. 2015). Similarly, three other studies found that institutions with female CEOs or otherwise managed by women performed better (Hartarska, et al. 2014), (Strøm, et al. 2014), (Boehe & Cruz 2013). The success of female driven MFI suggest that as female representation in national politics increases, there will be more political will towards seeking international support for MFI funding.

### Testing Proposal

This hypothesis can be tested by collecting all available request for IO microfinance lending support and correlating that to female representation in national parliamentary bodies.

## Hypothesis #2

### Hypothesis

Those IOs engaged in MFI support that seek to improve a recipient country's level of health and education rather than merely its economic performance, will target support to those countries where female borrowers are the likely target of MFI lending.

### Theoretical Support

Feminist often begin their examinations of international relations at the micro level and attempt to understand how the lives of individuals are affected by global

politics (Dunne, Kurki, & Smith, 2016). Gender inequalities in the allocation of resources, such as health care and education, matter because of the strong association with well-being (World Bank, Parliaments, n.d.). Conventionally, male based decision-making in financial matters is presumed. With increasing awareness of the evils of patriarchy, MFI have sought to work more closely with women in order to "empower" them and widen their sphere of independence. Some observers have discerned that as woman's economic space enlarges she is likely to commit a larger share of her earnings to her children than her husband would. These observers have noted corresponding positive impacts on children's health and education (Adams & Raymond, 2008). Therefore, under this view IOs with social goals should be more likely to target MFI funding support at those countries where MFI lending will be directed toward women as the likely beneficiaries.

### Testing Proposal

This hypothesis can be tested by collecting all IO microfinance lending support agreements, examining the mission statements of the IO, and evaluating whether those IOs whose mission focused on health and education funded more MFI that targeted women as the likely beneficiaries.

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