The Effects of Human Rights on the Success of Microcredit Lending Institutions

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ABSTRACT
This study explores the relationship between human rights and the success of microfinance institutions (MFIs). Microfinance emphasizes the empowerment of women, yet no study has examined whether the existing human rights environment, or the rights environment for women specifically, helps or hinders the effectiveness of this grassroots development approach. We test competing hypotheses, including the possibility that the rights environment affects MFI success, the possibility of an inverse relationship between levels of women’s political or economic oppression and MFI success, and the expectation of no relationship. Our quantitative analysis of MFIs in the Opportunity International Network suggests that the overall human rights environment in which they operate has significant effects on repayment rates, while women’s economic rights affect the operational self-sufficiency of MFIs. This has important implications for our understanding of the factors that make microfinance institutions viable, and for the degree of access that underserved communities have to credit.

AUTHORS’ NOTES
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Introduction
Microcredit has been trumpeted as having the ability to transform lives by empowering the poor, and particularly poor women, to lift themselves out of poverty. Microcredit lending directs the bulk of its assistance specifically to women in an effort to balance gendered economic disparities, to increase the status of women, and decrease dependency on men. Microfinance institutions (MFIs) allow their borrowers access small amounts of credit, regardless of their economic, social or political status, to lift themselves out of poverty, and in the process, to empower themselves economically, politically and socially (Grameen Bank 2009). Indeed, microcredit lending has reached over 90 million poor people; with an estimated 1-2 billion people who need access to basic financial services yet to be reached (McCarter 2006, 353; Bayulgen 2008, 527). The United Nations named 2005 “The Year of Microcredit”, and in 2006 Dr. Muhammad Yunus and the microfinance institution he created (the Grameen Bank) were jointly awarded the Nobel Peace Prize, testaments to the perceived power and importance of this grassroots development approach.

Such enthusiasm for the so-called “miracle of microcredit” has led advocates to push for its use as an economic development strategy across the globe, regardless of political, economic, or social contexts (UNDP 2005; Daley-Harris 2006; Bayulgen 2008). But we know little about whether the context in which MFIs operate affects its success. Can MFIs survive and thrive, offering microcredit loans to the poor, even in socio-political circumstances that make it difficult for their primary clients to succeed, or even to access their loans in the first place?

This paper explores the relationship between the human rights environment at the state level and the success of MFIs. No study, to our knowledge, has examined whether the existing rights environment generally, or the rights environment for women specifically, helps or hinders the effectiveness of the organizations at the heart of this grassroots development approach. We endeavor to do so in this study.

We argue that the lower overall respect for human rights in a country decreases potential MFI borrowers’ social capital – a crucial element in the success of microcredit lending as an approach – by reducing certainty and interpersonal trust and interconnection. This in turn should affect loan repayment rates and MFI self-sustainability, as economic activity predicated on maximizing social capital will be harder to maintain. Additionally, we argue that restrictions on women’s rights in particular should impact MFI success, given the often gendered nature of the microfinance development model. More restrictive political and economic rights environments for women mean that when women can access credit they will have a harder time operating on equal footing as men in the economy, and will likely face other political, economic or social barriers to success of their endeavors. As a result, an MFI’s repayment rates should suffer, as should their ability to continue to provide credit out of their own operating funds, in oppressive economic and political rights environments for women.

Microcredit Lending and its Effects
Microcredit lending is a grassroots development plan, often implemented by non-governmental organizations (NGOs), that focuses on giving small loans to the poor or those who have difficulty accessing credit to develop or enhance self-sustaining small businesses. These microloans (many under the equivalent of US$100) are often given for the purpose of encouraging entrepreneurial women to start or maintain a business (Wright 2000; Robinson, 2001; Woller and Woodworth
2. Borrowers repay loans with interest. This development plan seeks to create self-sufficiency rather than dependence, and empowerment rather than marginalization (Grameen Bank 2009).

Microfinance programs have significant potential in alleviating poverty, increasing incomes, and generating employment opportunities among disadvantaged populations (Hulme and Mosley 1996; Goldberg 2005). In some instances, microfinance has been shown to reduce both moderate and extreme poverty for participants, and also for non-participants in the wider economy (Khandker 1998; 2005). In others, the effects on poverty reduction, employment, or on creating profitable and self-sustaining microenterprises are less clear than the effects on overall quality of life of the poor (Morduch 1999; Pitt, Khandker, Chowdhury and Millimet 2003; Goldberg 2005; Boudreaux and Cowen 2008; Angelucci, Karlan and Zinman 2013).

Microfinance can also lead people to become politically and socially empowered (Hashemi, Schuler and Riley 1996; Marino 2005; Bayulgen 2008). Access to credit and participation in income-generating activities strengthens a woman’s bargaining position within the household, allowing her to influence a greater number of strategic decisions (Chestin and Kuhn 2002, 19; Angelucci, Karlan and Zinman 2013). Borrowing groups promote an increase in social capital and a sense of investment in the community. This, in turn, leads to trust in others, extended social networks, changes in community norms, and both individual and group empowerment (Hashemi, Schuler and Riley 1996; Morduch 1999; Rankin 2002; Wright 2000; Daley-Harris 2007; Angelucci, Karlan and Zinman 2013). This empowerment leads to “greater participation in social and political processes, greater decision-making power and to conscious action for social transformation” (UN Development Programe 2000, 27; see also: Mayoux 1998, 9; Marino 2005; Bayulgen 2008, 537; Grameen Bank 2009).

Clearly that literature on microcredit lending suggests that this grassroots development approach has important effects on economic status, quality of life, and empowerment. It thus has immense potential to greatly improve the lives of the poor, and poor women in particular. What is unclear, however, is under what conditions microfinance institutions can be successful, thus enabling the access to credit needed by so many.

Factors Affecting the Success of MFIs and Microcredit Lending
What work has been done on the factors affecting the success of MFIs and microcredit lending has tended to focus on the institution and its lending strategy or methodology. Some scholars have examined whether MFIs should adopt either an approach emphasizing institutional self-sufficiency and expanded scale focusing on targeting those who may already have some resources, human capital, or previous entrepreneurial success, versus an approach emphasizing direct poverty alleviation among the poorest of the poor above all else (Woller, Dunford and Woodworth 1999; Morduch 2000; Robinson 2001; Hermes and Lensink 2007). Others have examined whether individual- or group-lending strategies are more effective (Amerindariz and Morduch 2005; Giné and Karlan 2006; Cull, Demirgüç-Kunt and Morduch 2007), or whether the method of peer selection or peer or MFI staff monitoring increases effectiveness (Kritikos and Vigenina 2005). Still others emphasize the importance of the economic environment as key factors affecting microcredit impacts (Hulme and Mosley 1997; Wright 2000).

There have been few, if any, studies to our knowledge that examine the effects of the political environment on the success of microfinance institutions. This is surprising, given the extensive literature suggesting that political factors such as corruption, political instability, and regime type play a crucial role in affecting both economic growth and economic development (Alesina, Oetzel, Roubini, and Swagel 1996; Baum and Lake 2003; Haggard, MacIntyre and Tiede 2008). A related literature specifically examines the role of economic rights, institutions, and the “rules of the game” in yielding positive economic outcomes (North 1990; Olson 1993; Kimenyi 2007).
A factor typically overlooked in these analyses is the human rights environment in which MFIs operate. Only recently have some studies begun to examine how human rights affect economic outcomes, though these are more often concerned with how the rights environment affects foreign investment or domestic productivity, rather than economic development (Evans, Green and Murinde 2001; Richards and Gelly 2006; Blanton and Blanton 2007; Blume and Voigt 2007). While there is reason to suspect that the human rights environment might affect the success of economic development approaches, and that the rights environment for women might affect the success of a clearly gendered development approach, few if any studies directly test this relationship. Yet our review of the arguments, below, suggests that there is a substantial divide in expectations regarding this relationship.

**Argument #1: The Overall Human Rights Environment Affects The Success of MFIs**

Scholars from a variety of traditions contend that conditions within a state have an effect on whether or not grassroots development approaches similar to microcredit lending are successful (Sen 1983; 1999; Elson 1993; Evans, Green and Murinde 2001; Dichter, 2006; Pollin, 2007). State level factors are often ignored in bottom up development plans, often to the detriment of these programs and the institutions that provide them. For instance, Dichter (2006) argues that microcredit lending is helpful for poverty alleviation only insofar as people are enabled to succeed, whether through rights or good governance. The state ultimately determines whether and how human rights are granted or enforced, thereby creating a rights environment within which economic activity occurs (Richards, Gelly and Sacko 2001; Hertel 2006).

If the state restricts or does not enforce human rights, one would expect to see less economic development, as these rights are important for the ability for citizens to utilize economic opportunities. Rights may be “preconditions for economic progress” (Evans, Green and Murinde 2001, 17). Violations of rights create uncertainty, which tends to reduce investment, growth rates, and ultimately per capita income (Blume and Voigt 2007). In politically open societies, “the full provision of social capabilities enables individuals to create and exploit more effectively economic opportunities and contributes to improving prosperity” (Evans, Green and Murinde 2001, 23).

Humanist economists stress the importance of a person’s ability to access and utilize economic opportunities. If human rights are not met, economic opportunities are missed, and economic development is impeded (Lutz and Lux 1979; Sen, 1983; 1999). Microcredit lending offers women and the poor the opportunity to access credit, an opportunity that does not exist in most cases. While this allows access to credit, it is not guaranteed that these potential entrepreneurs will be able to utilize this credit, especially if limitations on social, political or economic rights impede potential borrowers from successfully exploiting that opportunity.

Amaryta Sen writes that measures of economic development are not complete without measures of human rights. “Perhaps the most important thematic deficiency of traditional development economics is its concentration on national product, aggregate income, and total supply of particular goods rather than on ‘entitlements’ of people and the ‘capabilities’ these entitlements generate” (Sen 1983, 756). Development is incomplete without focusing on what people are able to accomplish with income as a result of conditions within a state. Human rights conditions, how economic, political, and cultural rights are respected, can thus directly impact economic development.

Development consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency… The intrinsic importance of human freedom, in general, as the preeminent objective of development is strongly supplemented by the instrumental effectiveness of
freedoms of particular kinds to promote freedoms of other kinds. The linkages between different types of freedoms are empirical and causal, rather than constitutive and compositional. For example, there is strong evidence that economic and political freedoms help to reinforce one another, rather than being hostile to one another (Sen 1999: xii).

If political and economic freedoms are both constitutive of and causes of development, and if rights and liberties lead to increased social capital and the ability to effectively exploit economic activities, then we might expect that the human rights environment within which MFIs operate has much to do with their success or failure. In particular, the ability to exploit social capital is critical to the success of microcredit lending, particularly in group lending scenarios (Zeller 1998). Borrowing groups – small cooperatives of borrowers who hold each other responsible for their loans – enable very poor people to establish credit using social collateral instead of limited assets. Group lending creates incentives for group members to leverage their social capital by choosing loan co-signers carefully and engaging in peer monitoring and group self-enforcement, thus mitigating the possibility of a moral hazard (Besley and Coate 1995; Hulme and Mosley 1996; Bhatt and Tang 1998; Morduch, 1999; Wright, 2000; Armendariz and Morduch 2005). Many MFIs employ borrowing groups in order to improve repayment rates, create sustainable lending patterns, and maximize the success of loans. Yet the social capital necessary for these to be successful is dependent upon larger policies that help to determine the rights and resources available to people (Molyneux 2002). Oppressive human rights environments reduce certainty, and interpersonal trust and interconnection necessary to build and maintain social capital. This, in turn makes group borrowing more difficult, which should affect loan repayment rates and MFI sustainability.

In sum, a poor rights environment – in which civil and political liberties are minimal or at risk and/or in which fear of violations of physical integrity pervade daily life – disrupts the social cohesion necessary to make most microcredit lending effective. Moreover, MFIs challenge norms and the status quo by attempting to empower those at the margins. This may threaten those in power at the local or national level, who might in turn place obstacles in the way of MFIs, and their clients and funders. Finally, a poor rights environment creates uncertainty about the predictability of regular interactions in the marketplace, and encourages officials to exploit that uncertainty for their own benefit. Such obstacles should make insuring effective loan repayment harder, and will make turning a profit or at least maintaining self-sustainability more difficult. A poor rights environment should make it harder for MFIs to succeed, both in providing repayable loans, and in being profitable and sustainable.

• Hypothesis 1 (H1): The overall human rights environment should have a significant effect on the success of microfinance institutions. Environments in which there is a greater respect for human rights should foster greater success by MFIs, while more restrictive rights environments should hinder MFI success.

Argument #2: The Rights Environment for Women Affects The Success of MFIs
Rather than focusing on the effects of the overall rights environment, perhaps a more gendered approach to human rights better explains the success of organizations engaged in an often explicitly gendered development program. MFIs try targeting the poor, and the most in need of positive empowerment. Currently, those most in need are women. 70% of the world’s 1.3 billion people living in poverty are women (UN Millennium Campaign 2009). Women have a higher unemployment rate than men in almost every country, and make up a majority of the lower paid, unorganized informal sector of most economies (Cheston and Kuhn 2002, 8). “Women work two-
thirds of the world's working hours, produce half of the world's food, and yet earn only 10% of the world's income and own less than 1% of the world's property” (UN Millennium Campaign 2009). With little control over property, women have difficulty obtaining loans that require collateral. Women do not generally have separate income or personal capital in traditional societies, making it difficult for women to obtain loans from traditional banking institutions. Moreover, many economic development programs center on the head of the household, often traditionally the patriarch of the family (Folbre 1986; Elson, 1993; Whitworth 2006).

Microcredit loans are mostly directed towards women in large part to promote gender-balanced development (Wright 2000; Robinson 2001). Microcredit lending institutions offer women empowerment opportunities through the ability to invest in themselves. Allowing women to borrow gives women a chance to gain fiscal power within a household, which theoretically gives a woman more status (Wright 2000). Perhaps not surprisingly, “[t]he UN estimates that women make up 76 percent of microcredit customers around the world, varying from nearly 90 percent in Asia to less than a third in the Middle East.” (Boudreaux and Cowen 2008, 28).

If MFI success is contingent on the conditions within a state, and poor women are the primary focus of microcredit lending, then conditions within a state are having a disproportionate effect on women who might choose to utilize MFI credit services. Conditions that are gendered, such as women's political or economic rights, would then have a more direct effect on success of microcredit lending than overall human rights conditions because women are the primary borrowers. Such an approach fits well with recent findings on the effects of gender inequality and gendered laws on competition, economic opportunity, growth and development (Morrison, Raju and Sinha 2007, Demirgüç-Kunt, Beck and Honohan 2008; Gneezy, Leonard and List 2009; Klasen and Lamanna 2009; Ferrant 2011). It is also consistent with the general shift in academic and policy circles toward “gender-aware development economics” (Elson 1993, 237).

The asymmetrical distribution of power and resources within the household and within society plays a key role in impeding development writ large, and gendered development more specifically (Folbre 1986; Harriss 1995; Sen 1999; Warner and Campbell 2000). Gender often dictates what roles individuals play in a society. In many societies, women are confined to household positions, not contributing to traditional measures of household income. The chance to borrow money from a microcredit institution allows women to be a more direct part of economic development. If the rights environment for women is unfavorable, women may not have the opportunity to start a business, if they are even able to get a loan (Morrison, Raju and Sinha 2007, Demirgüç-Kunt, Beck and Honohan 2008). When they can, customary laws and more formal rights restrictions may limit their ability to interact outside the home or conduct business as freely as their male counterparts (Hofstetter 2007). As one analyst notes, “the failure to tackle gender relations also means that in many cases women find themselves unable to access the resources they need to ensure that their enterprises succeed” (Molyneux 2002, 182; see also Mayoux 2001, Rankin 2002). And perhaps due to socialization and available rights, in patriarchal societies when given the opportunity women have been found to choose to not opt into an economically competitive environment as often as men, or as often as women in matriarchal societies (Gneezy, Leonard and List 2009). Absent political or economic rights, women are hindered in advocating for access to those resources, or even opting into taking those available opportunities when offered.

The identity of a woman in a particular culture plays a large part in their status and role in the economy (Elson, 1993; Whitworth 2006). In states where women’s economic or political rights are inhibited by socio-cultural factors or customary laws, one would expect to see fewer microfinance successes because of embedded gender roles (Hofstetter 2007). Indeed, in highly restrictive environments, microfinance programs have potentially negative impacts on women, including increasing the burden of workloads, changing family dynamics, increased divorce rates and
rising domestic violence rates (Cheston and Kuhn 2002, 29; McCarter 2006, 361). Among the
reasons for the failure is “the existence of gender relations that limit women's access to the funds
they generate: in other words, men appropriate and control them” (Molyneux 2002, 181; see also
Goetz and Sen Gupta 1996). If the man of the household invests the loan, he will not necessarily use
it to empower the woman of the household, or to pursue the same entrepreneurial goals or
otherwise use profits in the same way that the woman would (Elson 1993; Warner and Campbell
2000).

This should make timely loan repayment less likely, even when endeavors funded are
successful and turn a profit, and runs directly counter to the intent of most MFIs (Hofstetter 2007).

Gendered socio-economic rights clearly affect the ability of women to enter the economic
sphere in the first place (Sen, 1983). If women are not able to enter the economic sphere as a result
of rights restrictions, then empowerment and development, twin goals of microfinance, cannot be
achieved. MFI success may thus be contingent on to what extent rights are available for women.
“Whether poor women can deploy ‘their’ social capital to enhance their leverage over resources and
policy depends crucially on whether they can develop their capabilities, political as much as
economic, collective as much as individual.” (Molyneux 2002, 186).

Goldberg (2005, 37) argues that women who do participate in microfinance programs are
likely more empowered than those who do not. Less empowered women may be less willing or able
to successfully access and deploy microcredit loans or other MFI services. Yet studies that examine
the success of MFIs find substantial impacts from female borrowing and almost no impact at all
from male borrowing (Khandker 1998; 2005). This suggests that where women are hindered by the
restrictiveness of the rights environment from accessing or using MFI services effectively, MFIs will
have a difficult time maintaining their viability.

In an environment in which leveraging that social capital is difficult if not impossible
because of rights restrictions on women, one would expect fewer MFI-funded businesses to be
successful at turning a profit, which would yield lower repayment rates, and a decreased ability for
the MFI to be self-sustaining. MFIs in this situation might be forced to raise interest rates to insure
repayment, hurting the clients they are attempting to help. Or MFIs might be forced to pursue
outside funding from the state or other external sources, which reduces their autonomy and in some
cases may be politically problematic. And if the MFI cannot maintain successful operations in such
environments, it risks scaling back or eliminating the only avenue of credit (and potential
empowerment) available to women in an otherwise oppressive environment.

In sum, if women are unable to enter the economic sphere, or succeed in it upon entering,
because of structural, cultural, or political reasons, then MFI success rates should be low. We should
expect that women who are successful at borrowing from MFIs will have a harder time repaying
loans. MFIs who try to target women borrowers women may therefore find themselves unable to sustain
their efforts. Conversely, if the structural, cultural, and political environment is conducive to
women’s empowerment, MFIs should be more successful.

• Hypothesis 2 (H2): The rights environment for women should have a significant effect on the success of
microfinance institutions. Environments in which there is a greater respect for women’s rights should foster greater
success by MFIs, while more restrictive rights environments for women should hinder MFI success.

Argument #3: MFIs Can Be Successful Regardless of Human Rights Conditions
It is also possible that MFI success can best be explained by business practices of the institution
itself, the economic environment within which the MFI operates, or other determinants that are not
related to the level of oppressiveness of or restrictions in state environments. Certainly this has been
the dominant assumption within the literature examining MFI success, which examines MFI
practices and the economic environment thoroughly, but tends to completely ignore the political context within which MFIs operate (Hulme and Mosley 1997; Sharma and Zeller 1997; Morduch 1999; 2000; Rosenberg 1999; 2006; Woller, Dunford and Woodworth 1999; Wright 2000; Norell 2001; Robinson 2001; Amerindariz and Morduch 2005; Kritikos and Vigenina 2005; UNDP 2005; Giné and Karlan 2006; Cull, Demirgüç-Kunt and Morduch 2007; Hermes and Lensink 2007).

If success of a microcredit institution were completely independent of the human rights environment in which it operates, this would support microcredit rhetoric that bottom up development plans bypass oppressive top down factors. Top-down approaches to development are most successful when there is good governance and a “sound policy environment” (Burnside and Dollar 1997; Narayan 2002). However, microcredit lending advocates argue that a virtue of this development approach is that if done well it can be successful both in situation of good governance, and in countries where there is something less than good governance (Holloh 2001; Grindle 2004). Indeed, some argue that microfinance can be a factor in leading to good governance in such difficult situations (Marino 2005).

In an initial, primarily anecdotal study, Woodworth (2006, 60-61) suggests that, while “human wars and aggression, … rapid natural disasters and/or slow moving other catastrophes” may be major obstacles to development, MFIs can overcome the challenges posed by such a difficult operating environment. He then urges further research on best practices for MFIs operating in difficult natural and socio-political environments, suggesting that the findings will enable MFIs to act across such situations to yield successful grassroots development and empowerment:

As we learn more and more about best practices and the use of innovative strategies and tools, microcredit will more fully empower impoverished families around the world, even in troubling circumstances. We should not wait for things to become better. We must use our microcredit systems to make things better. To me, this is the great hope and promise of microcredit—to achieve success under the worst and most unlikely of such conditions (Woodworth 2006, 61-62).

Woodworth’s argument, similar to that of many microcredit advocates, is that MFIs have the potential to be successful regardless of oppressive political conditions on the ground, and that they will affect changes in those oppressive conditions once successful. This assumption underlies the efforts on the part of those who advocate for the use of this development tool, regardless of the rights environment within which potential MFIs might operate.

- **Null Hypothesis (H₀):** Human rights conditions should have no effect on the success of microfinance institutions. Factors related to the operations and business practices of the MFI itself, as well as the overall economic environment within which it operates, will have a greater effect on MFI success than will human rights conditions.

**Methodology**

**Cases: MFIs in the Opportunity International Network**

Microfinance networks are associations of MFIs that must reach a common standard of operations and disclosure, evaluated by the network’s administration. These networks can have partners across the globe, and maintain a certain level of homogeneity among the partners. Selecting cases from among MFIs in the same microfinance network controls for differences in philosophies and business practices and reporting requirements, as all MFIs within the same network follow similar guidelines. This eliminates the possibility that these factors would have an effect on the outcome.
For this study, our sample will include all MFIs who are members of the Opportunity International Network. Unlike the numerous regionally focused networks, Opportunity International is a global network that focuses its efforts on providing access to credit to women and the very poor around the world. Its mission statement is: “to empower people to work their way out of chronic poverty, transforming their lives, their children’s futures and their communities” (Opportunity International 2012). Opportunity International’s (2005, 2) statement of intent regarding poverty and women reads as follows:

Opportunity International strives to reach the world’s poorest people through its microenterprise-development programs. Recognizing that the large majority of the world’s poorest people are women, and that they contribute decisively to the well-being of their families, Opportunity makes it a priority to support programs that serve the particular needs of women.

Opportunity International Network, based in the United States, was the first organization to employ the network approach to coordinating microfinance efforts. It currently has 44 implementing partner MFIs across 25 developing countries servicing almost 2.5 million clients with a total loan portfolio of over US$300 million (Opportunity International 2010; MixMarket 2012). The Opportunity International Network is essentially run by its partner organizations, as implementing partner MFIs each have a vote on the board of the network. The network lays out a common vision, mission, standards, and approach for all partner organizations. The network sets and enforces performance standards and membership criteria, has a centrally run accreditation process, requires a common assessment and peer-review methodology, and reports partner performance. While some loans are given to individuals, the network pushes its partner MFIs to rely heavily on group lending. Over 85% of network MFI loans go to “Trust Groups” and 84% of all loans are given to women (Opportunity International 2010; 2012; MIX Market 2012).

The Opportunity International network is therefore ideal for this study because of its global scope, focus on women and the very poor, emphasis on microcredit lending, and extensive number of implementing partner MFIs. It is also one of the few MFIs whose results have been rigorously assessed, and whose loans have been found to improve the quality of life for its borrowers as compared to a comparison group [peers who have not received a loan from an MFI] (Mohling 2010). Moreover, its strong emphasis on similar lending practices, assessment and accreditation, mission and approach allow us to control for the likely effects of differences in approaches that may have effects on MFI performance.

Dependent Variables: Success of Microfinance Institutions (MFIs)

The economic success of micro-enterprises is notoriously difficult and expensive to measure empirically at the individual borrower level (Dichter 2006, UNDP 2005). Most such evidence of success or failure is based on anecdotal evidence. Because measurement is a problem, there is a potential that microcredit success is “hyped,” encouraging resources to be allocated for programs that might not be economically sustainable in the long run (Dichter 2006). Nevertheless, there is consistent and reliable data on the broader economic success of MFIs as financial institutions, including their ability to fulfill the social mission to provide repayable loans to underserved populations, and their ability to survive and continue to provide microfinance opportunities (Robinson 2001; Cull, Demirgüç-Kunt and Morduch 2007).

Much of this data is compiled in an on-line database called the Microfinance Information Exchange Market, or MIX Market database. Microfinance Information Exchange is a non-profit organization that facilitates information exchange in the microfinance industry. The MIX Market...
database is a global database of over 2000 MFIs that provides information about outreach and impact data, financial data, portfolio data, and other general data about institutions and networks to which they belong. The Mix Market was originally created by United Nations Conference on Trade and Development (UNCTAD), and was then expanded by the Consultative Group to Assist the Poorest (CGAP) in 2001 (MIX Market 2012).

Although there are a few MFIs in the network that report data before 2000, most reliable MIX Market data begins in 2000. Data on any given year often does not get reported immediately, and is often only available six to nine months after the end of the year. The latest accurate data available to us is data for 2010. Thus, the sample that we wind up with using this approach yields a time series cross sectional data set of all MFIs in the Opportunity International network from 2000 to 2010. Given that many of the independent variables employed in the study need to be lagged (see below), we are therefore able to examine the effects of these variables on MFI performance from 2001 through 2010.

Each MFI has a profile on-line that includes general information on the institution, its outreach and impact, financial data, audited financial statements, and ratings and evaluations of each particular institution. The Microfinance Information Exchange team also ensures that the available data and documents are reliable by using a “quality control” verification process that includes data coherence tests and verification of online posting and editing rights. Peer reviews of institutions further ensure that data available via MIX Market is credible. Finally, MIX Market profiles are rated on their level of disclosure with a “diamond rating system” of zero to five diamonds, with more diamonds representing a higher level of financial disclosure. To insure that the data is as accurate as possible, we only include cases in which the diamond rating is three or greater, which translates to an MFI reporting a minimum of two consecutive years of outreach, impact and financial data.

Scholars have relied on a range of indicators of the health and success of MFIs. Scholars and practitioners who argue that poverty alleviation is the key outcome of interest focus on measures such as the degree of the MFI portfolio that is at risk as an indicator of MFI success (Zeller 1998; Norell 2001). For many MFIs this is the figure used to estimate loan repayment rates, often thought of by scholars as the best indicator of the success of the MFI in achieving its goals of providing repayable loans that can be used productively (D’Espallier, Guérin and Mersland 2011). Others argue that “large-scale outreach to the poor on a long-term basis cannot be guaranteed if microfinance institutions are incapable of standing on their own feet,” and therefore tend to utilize sustainability measures to operationalize MFI success (Hermes and Lensink 2007, F7). Since there is no consensus as to the “proper” goals of MFIs (Woller, Dunford and Woodworth 1999; Morduch 2000; Hermes and Lensink 2007), or as to which measure is the best way to operationalize success, and as different measures captures different facets of success, we will employ two different but commonly employed indicators in this study – Portfolio at Risk greater than 30 Days and Operational Self-Sufficiency.

**Portfolio at Risk greater than 30 Days (PAR>30)** is the standard international measure of portfolio quality, and thus a very good measure of the degree of delinquency or arrears (Rosenberg 2006, 3). It is measured as the proportion of loan portfolios overdue more than thirty days. The industry standard for MFIs is to have a PAR<30 of less than 5% (Norell 2001, 118). This measure does a good job of distinguishing between loans that are barely late and those that are much riskier (Rosenberg 1999, 14). As Norell (2001, 117-118) notes, “it is the key arrears measure because it means that the borrower has awakened thirty mornings and chosen not to repay the MFI, so the probability of nonpayment continuing is high.” As a result, many MFIs, international donors, and scholars use it to approximate loan repayment rates (D’Espallier, Guérin and Mersland 2011). It is a useful measure of whether the institution is providing repayable loans to underserved populations, but is not necessarily related to whether the MFI is profitable or sustainable (Morduch 1999). In our
models, we take the natural log of Portfolio at Risk, since PAR<30 is heavily left-skewed (toward 0). All values of PAR<30 that equal zero are recoded at 0.01, the lowest value possible to yield a non-infinity ln(PAR<30).

Operational Self-Sufficiency (OSS) is financial revenue divided by the sum of financial expenses, net loan provision expenses, and operating expenses. This indicator of overall financial performance is frequently used as a measure of self-sustainability, or the ability of the MFI to cover its own operating costs without having to rely heavily on grants, aid, or other outside assistance (Morduch 1999; Cull, Demirgüç-Kunt and Morduch 2007; D’Espallier, Guéрин and Mersland 2011, 761). This increases the MFIs autonomy, and makes access to credit more sustainable over the long term. OSS is generally seen as better than measures such as return on assets or return on equity, which may be inappropriate for many MFIs.

Independent Variables: Human Rights Environment

We employ the Cingranelli-Richards (2012) Human Rights Dataset, or CIRI, to operationalize the human rights environment in which MFIs operate. CIRI is a standards-based dataset that provides quantitative information on government respect for human rights. The dataset contains a variety of indicators of human rights and measures these rights for a near-global sample of countries in the world. The CIRI human rights indicators are coded from entries in the US State Department Country Reports on Human Rights Practices. In order to ensure that the CIRI dataset is reliable, it is independently coded by at least two trained coders every year. A Krippendorf’s r-bar score of 0.944 suggests a high level of intercoder reliability. All of the human rights-related independent variables outlined below are lagged one year to ensure that we can determine temporal ordering.

We employ the CIRI (New) Empowerment Rights Index as a way to capture our first independent variable, the overall civil and political rights environment in each country.

[The (New) Empowerment Rights Index] is an additive index constructed from the Foreign Movement, Domestic Movement, Freedom of Speech, Freedom of Assembly & Association, Workers’ Rights, Electoral Self-Determination, and Freedom of Religion indicators. It ranges from 0 (no government respect for these seven rights) to 14 (full government respect for these seven rights). (Cingranelli and Richards 2008, 4).

We include this as a measure of the overall civil and political rights environment in the country in which the MFI is operating. Including this indicator enables us to see whether MFI success is contingent upon a positive rights environment for women specifically, or whether rights for all citizens have a greater effect.

We also include the CIRI Physical Integrity Rights Index as a way to capture the degree to which the physical integrity of the person is regularly at risk in these countries. CIRI measures this indicator as an additive index of four composite measures of physical integrity abuses – disappearance, political imprisonment, torture and extrajudicial killing – with the overall measure ranging from 0 to 8, or from no government respect to full respect for these four rights (Cingranelli and Richards 1999; 2008, 3).

Our other human rights-related independent variables are the levels of women’s political and economic rights. The CIRI measures of women’s economic and political rights synthesize several internationally recognized women’s rights. Women’s Economic Rights include: equal pay for equal work, free choice of profession without male permission, equal hiring, job security, and freedom from sexual harassment and danger in the workplace. This index is geared more toward workplace rights, but is very highly correlated with gendered economic inequality as well, and is thus a good proxy for
the overall women’s rights environment in a country. Women’s Political Rights include: the right to vote, petition the government, join political parties, run for public office, and hold elected or appointed government positions. Both of these variables are coded on a scale of 0-3: 0 means that there is a complete lack of rights for women under law, and/or there is discrimination written into the law and tolerated by the government; 1 represents that there are some rights written in to a state’s laws, but they are not actively enforced by the government, or are prohibited in practice; 2 means that there are some rights in a state’s laws, and these rights are enforced by authorities, but the government still tolerates some level of discrimination against women, or that some other rights are moderately prohibited; 3 means that all or most of women’s rights are guaranteed both in law and in practice.

Control Variables: Time Varying MFI-related Variables
Each model includes a one year lagged version of its dependent variable, to account for the effects of prior MFI success on current MFI success. This also has the virtue of controlling for the effects of autocorrelation, and is recommended by Beck and Katz (1995) for modeling dynamics when dealing with pooled cross-sectional time series data. Moreover, we expect that the best predictor of success of an MFI will be past success. Since the lagged dependent variable is theoretically relevant as well as methodologically useful, we include it in our models (Keele and Kelly 2006).

In addition, we control for a variety of factors about the MFIs themselves that are likely to affect their success, and which vary over time within each MFI. Borrowers Per Staff Member, the number of active borrowers divided by the number of an MFIs personnel, controls for the overall efficiency of MFI and the productivity of its staff. The Number of Active Borrowers (those with loans outstanding, adjusted for standard write-offs) controls for the overall size of MFI and the breadth of its client outreach efforts, and is generally considered the best measurement of outreach (Rosenberg 2006, 2). The Percentage of Clients Who Are Women controls for the gendered nature of the MFIs efforts at providing access to credit. The literature suggests that as the percentage of women borrowers increases, delinquency and default rates decrease (Sharma and Zeller 1997; D’Espallier, Guérin and Mersland 2011). The data for each of these variables comes from the MIX Market database, described above.

Control Variables: Time Varying Economy-related Variables
We also control for factors in the economic context within which the MFI operates that are likely to affect its success. We control for the possibility that the overall wealth and/or expansion of the economy as a whole is affecting the success of MFIs located in them by including GDP per Capita and GDP Growth, respectively, in our models. The data for these variables comes from the World Bank’s World Development Indicators dataset. These variables are lagged one year to insure that we can determine temporal ordering. Finally, we include a dummy variable to account for the possible effects that the Global Economic Crisis might have on MFI success. This variable is coded 1 for 2007-2010, and 0 for all prior years in the sample.

Analysis
Below, we present the results of both ordinary least squares (OLS) regression and fixed effects models of factors affecting the success of MFIs. Models are estimated using STATA, version 11.2. The OLS models are estimated using panel-corrected standard errors to correct for both heteroskedasticity and correlation of errors within panels, and including a lagged dependent variable to account for dynamics (Beck and Katz 1995). We also employ fixed effects models to accounts for any unobserved unit heterogeneity. Another way to think of this is that fixed effects models allow us to control for those factors or characteristics that are specific to each MFI, but do not vary over
time. The results of fixed effects models will tell us the causes of changes in our measures of success within each observed MFI, while controlling for those time-invariant factors. The fixed effects models are estimated with robust standard errors clustered on groups (MFIs) to control for heteroskedasticity. Descriptive statistics for the variables employed in this study are listed in Table 1.

We ran two separate sets of statistical models to test the effects of the overall human rights environment, and the economic and political rights for women, on the success of MFIs, shown here in Tables 2 and 3. Each table presents both OLS and Fixed Effects models for each dependent variable used to capture the two different components of MFI success. In addition to a common set of independent and control variables across the four models, each model also included a one year lagged version of the relevant dependent variable, to account for the effects of prior MFI success on current MFI success.

<< Tables 1 through 3 about here >>

The first set of models test the effects of the overall human rights environment, women’s rights, time varying MFI-related indicators, and overall economic conditions on an MFI’s percentage of its portfolio that has been at risk for greater than thirty days (Table 2). The OLS results suggest that the human rights environment in general and women’s economic or political rights specifically had no measurable effect on loan repayment within the Opportunity International Network. However, once we control for time-invariant MFI-specific factors using fixed effects models, it appears that the overall rights environment, as measured by the Empowerment Index, does have a significant effect (p < 0.05) on reducing loan delinquency (or, increasing repayment rates).

As for the control variables, Table 2 also shows that the OLS model identifies the previous year’s percentage of the MFI’s portfolio that was at risk for more than 30 days as having a strong significant effect (p < 0.01), and GDP Growth as having a weakly significant negative effect (p < 0.10) on the rate of loan delinquency a year later. However, once time-invariant MFI-specific factors are accounted for using a fixed effects model, the lagged dependent variable no longer has a significant effect on repayment rates. However, the measure of MFI efficiency, Borrowers per Staff Member, is now significant (p < 0.05). GDP growth remains only marginally significant in the fixed effects models, and GDP per capita becomes marginally significant as well (p < 0.10).

The second set of models test the effects of the overall human rights environment, women’s rights, time varying MFI-related indicators, and overall economic conditions on an MFI’s operational self-sufficiency (Table 3). While the human rights environment in general and women’s political rights specifically had no measurable effect, women’s economic rights had a statistically significant positive effect on the operational self-sufficiency of MFIs within the Opportunity International Network, all else held constant (p < 0.05). This result holds even when using fixed effects models to account for time-invariant MFI-specific factors. According to the fixed effects model, as women’s economic rights in a country improves by one unit (on a 0-3 scale; for example, from being on the books but not actively enforced [1] to being enforced despite some remaining restrictions [2]), MFIs in that country improve their operational self-sufficiency by 7.32%, all else held constant. In addition, previous self-sufficiency has a strong significant positive effect (p < 0.01), while wealth (GDP per capita) has a negative significant effect, on subsequent self-sufficiency, across both OLS and fixed effects models. No other variables have statistically significant effects in either of these models.¹⁸

How should we make sense of what seem to be contradictory results? Why would the overall rights environment affect an MFI’s portfolio at risk, but not its operational self-sufficiency? And why would improvements in women’s rights yield greater operational self-sufficiency, but not affect the level of risk of the MFI portfolio and its clients’ repayment rates? Perhaps these findings suggest
that people who gain access to credit via MFIs are most likely to be able to repay their loans in market-friendly environments characterized by the ability of all actors in the marketplace to move, assemble, talk freely, have their basic rights respected, and have some sense of certainty and stability. Yet, the rights environment for women restricts who is able to most effectively take advantage of these opportunities – either by restricting access to these loans or by making it harder to translate them into economic success – regardless of the overall human rights environment in the country. As a result, we would expect to see high repayment rates for those who borrow in more open, freer contexts, but limited positive effects of borrowing by women in gendered economic rights environments regardless of the overall human rights environment in the country. Limited economic improvements by women borrowers, who make up a large proportion of MFI clients, would result in MFIs that were likely unsustainable without outside assistance. These results are interesting, and suggest the need for future research on the effects of political context of MFI success.

**Conclusion**

Contrary to the assumption that pervades the literature on microcredit lending, variables other than those related to the MFI and/or the economic environment within which it operates can have important effects on the success of microfinance institutions. The overall human rights environment in which an MFI operates was found to affect the percentage of an MFI’s portfolio at risk, a measure of the rate at which MFI clients could repay their loans. In addition, we found a significant relationship between women’s economic rights and operational self-sufficiency of MFIs within the Opportunity International Network. This suggests that a gendered approach to human rights, and in particular a focus on women’s economic rights, has some important explanatory power. Overall, the evidence presented here suggests that we can confidently reject the null hypothesis (H₀) that human rights conditions in which MFIs operate have no effect on their success. There is some support for the hypothesis that the overall rights environment is a factor affecting MFI success (H₁), but only in how it affects the rate of repayment of loans. And there is substantial support for the hypothesis that women’s economic rights play at least some role in enhancing MFI success – in making the MFI operationally self-sustainable (H₂). In short, both perspectives that suggest that human rights affect MFI success were supported, but each speaks to a different mechanism that affects MFI success.

Another insight that these results suggest is that the time varying institution-related variable that seems to matter most to future success is prior success. The lagged dependent variable is the only variable that had consistently significant and substantively important impacts across the models, while no other outreach variables are consistently significant. This result is intuitive for scholars of a variety of political phenomena, from violence and repression to voting behavior, whose literature clearly demonstrates that past outcomes or behavior is often the best predictor of future outcomes or behavior (Davenport, 1996; McGregor, 1996). One way to ensure that an MFI can be successful in the short- and long-term is to establish success early on. Perhaps this explains the practice by many MFIs of serving borrowers who are most likely to be successful rather than focusing on underserved populations. Future research should examine what factors make MFIs that specifically target underserved populations more likely to succeed, something we are not able to speak to within the limits of our study.

However, the most important implication of this study is that the human rights do have significant and substantively important effects on the success of microfinance institutions. The overall rights environment and degree of individual empowerment affects the ability of borrowers to repay loans on time. But the rights environment for women affects who can access these loans, as well as who can maximize their economic and social potential. Fewer rights for women means fewer
women able to contribute to MFI success, which ultimately makes these type of organizations less operationally self-sustainable.

While this study examines only those MFIs in the Opportunity International Network, the results hint at the possibility that countries or organizations trying to promote economic development or women’s empowerment through microfinance in some of the most difficult rights environments would be wise to emphasize both the promotion of overall human rights aimed at empowering individuals and women’s economic rights more specifically. MFIs and MFI networks interested in expanding their operations to best serve new populations should pay attention to human rights as an important factor that may determine such efforts’ viability as they make such decisions. Perhaps partnerships between human rights organizations and MFIs would be fruitful ways of operating in difficult rights environments, although they might also politicize MFIs in a way that makes it harder for them to set up in problematic rights environments in the first place, or to get access to borrowers once established. Future research should examine whether any of these approaches can yield viable, sustainable MFIs, and how their efforts can help to unleash the promise of microfinance.
### Table 1. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>St. Dev.</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human Rights Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Empowerment Index $t_{-1}$</td>
<td>8.68</td>
<td>3.02</td>
<td>0</td>
<td>14</td>
</tr>
<tr>
<td>Physical Integrity Rights $t_{-1}$</td>
<td>3.02</td>
<td>2.13</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Women’s Economic Rights $t_{-1}$</td>
<td>1.06</td>
<td>0.44</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Women’s Political Rights $t_{-1}$</td>
<td>2.07</td>
<td>0.31</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td><strong>Lagged Dependent Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\ln(\text{Portfolio at Risk &gt; 30 Days})_{-1}$</td>
<td>1.47</td>
<td>1.34</td>
<td>-4.61</td>
<td>3.97</td>
</tr>
<tr>
<td>Operational Self-Sufficiency $t_{-1}$</td>
<td>97.39</td>
<td>29.86</td>
<td>1.10</td>
<td>218.93</td>
</tr>
<tr>
<td><strong>MFI Control Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowers per Staff Member $t_{-1}$</td>
<td>120.61</td>
<td>82.80</td>
<td>5</td>
<td>799</td>
</tr>
<tr>
<td>Number of Borrowers $t_{-1}$</td>
<td>23759.71</td>
<td>36718.37</td>
<td>186</td>
<td>264089</td>
</tr>
<tr>
<td>Percent Women Borrowers $t_{-1}$</td>
<td>72.21</td>
<td>21.61</td>
<td>12.02</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Economy Control Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per Capita $t_{-1}$</td>
<td>2143.12</td>
<td>2263.59</td>
<td>148.88</td>
<td>13885.60</td>
</tr>
<tr>
<td>GDP Growth $t_{-1}$</td>
<td>4.88</td>
<td>3.17</td>
<td>-17.16</td>
<td>14.20</td>
</tr>
<tr>
<td>Global Economic Crisis Dummy</td>
<td>0.38</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 2. Effects of the Human Rights Environment on Repayment Rate (Portfolio at Risk > 30 Days) of Microfinance Institutions (MFIs) in the Opportunity International Network

<table>
<thead>
<tr>
<th>Human Rights Variables</th>
<th>Ordinary Least Squares (Panel Corrected Standard Errors)</th>
<th>Fixed Effects (Robust Standard Errors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empowerment Index (_t-1) (Overall Rights Environment)</td>
<td>-0.03 (0.03)</td>
<td>-0.07 (0.03) **</td>
</tr>
<tr>
<td>Physical Integrity Rights (_t-1)</td>
<td>-0.02 (0.03)</td>
<td>-0.08 (0.08)</td>
</tr>
<tr>
<td>Women’s Economic Rights (_t-1)</td>
<td>-0.02 (0.16)</td>
<td>0.14 (0.15)</td>
</tr>
<tr>
<td>Women’s Political Rights (_t-1)</td>
<td>-0.19 (0.16)</td>
<td>-0.19 (0.15)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MFI Control Variables</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ln(Portfolio at Risk &gt; 30 Days) (_t-1) (Lagged Dependent Variable)</td>
<td>0.57 (0.13) ***</td>
<td>0.14 (0.12)</td>
</tr>
<tr>
<td>Borrowers per Staff Member (_t-1) (Efficiency, Productivity)</td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00) **</td>
</tr>
<tr>
<td>Number of Borrowers (_t-1) (Breadth of Outreach)</td>
<td>-0.00 (0.00)</td>
<td>0.00 (0.00)</td>
</tr>
<tr>
<td>Percent Women Borrowers (_t-1) (Outreach to Women)</td>
<td>-0.00 (0.00)</td>
<td>-0.01 (0.01)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economy Control Variables</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per Capita (_t-1) (Wealth)</td>
<td>-0.00 (0.00)</td>
<td>0.00 (0.00) *</td>
</tr>
<tr>
<td>GDP Growth (_t-1) (Growth)</td>
<td>-0.03 (0.02) *</td>
<td>-0.05 (0.03) *</td>
</tr>
<tr>
<td>Global Economic Crisis Dummy (Global Context)</td>
<td>0.17 (0.15)</td>
<td>0.16 (0.19)</td>
</tr>
<tr>
<td>Constant</td>
<td>1.71 (0.51) ***</td>
<td>2.12 (0.71) ***</td>
</tr>
</tbody>
</table>

| Observations (N)                                           | 236                                                      | 236                                  |
| # groups (MFIs)                                            | 43                                                       | 43                                   |
| R\(^2\)                                                    | 0.44                                                     | 0.23                                 |
| Wald \(\chi^2\)                                           | 114.34 ***                                               | 11.43 ***                            |
| F (11, 42)                                                 |                                                          |                                      |

NOTES:

*** - significant at p < 0.01, two-tailed test
** - significant at p < 0.05, two-tailed test
* - significant at p < 0.10, two-tailed test

OLS Models: Pairwise option was used in calculating the model (see StataCorp, 2003).
FE Models: Robust standard errors clustered on MFIs used to control for heteroskedasticity.
### Table 3. Effects of the Human Rights Environment on Operational Self-Sufficiency of Microfinance Institutions (MFIs) in the Opportunity International Network

<table>
<thead>
<tr>
<th>Human Rights Variables</th>
<th>Ordinary Least Squares (Panel Corrected Standard Errors)</th>
<th>Fixed Effects (Robust Standard Errors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empowerment Index (_{t-1})</td>
<td>0.62 (0.61)</td>
<td>1.04 (1.00)</td>
</tr>
<tr>
<td>(Overall Rights Environment)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical Integrity Rights (_{t-1})</td>
<td>0.70 (0.87)</td>
<td>0.15 (2.03)</td>
</tr>
<tr>
<td>Women’s Economic Rights (_{t-1})</td>
<td>6.13 (2.56) **</td>
<td>7.32 (3.64) **</td>
</tr>
<tr>
<td>Women’s Political Rights (_{t-1})</td>
<td>-5.49 (3.51)</td>
<td>1.45 (6.62)</td>
</tr>
<tr>
<td>MFI Control Variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational Self-Sufficiency (_{t-1})</td>
<td>0.64 (0.09) ***</td>
<td>0.47 (0.08) ***</td>
</tr>
<tr>
<td>(Lagged Dependent Variable)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowers per Staff Member (_{t-1})</td>
<td>-0.02 (0.02)</td>
<td>-0.04 (0.05)</td>
</tr>
<tr>
<td>(Efficiency, Productivity)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Borrowers (_{t-1})</td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00)</td>
</tr>
<tr>
<td>(Breadth of Outreach)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent Women Borrowers (_{t-1})</td>
<td>-0.06 (0.08)</td>
<td>0.09 (0.14)</td>
</tr>
<tr>
<td>(Outreach to Women)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economy Control Variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per Capita (_{t-1})</td>
<td>-0.00 (0.00) **</td>
<td>-0.00 (0.00) ***</td>
</tr>
<tr>
<td>(Wealth)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Growth (_{t-1})</td>
<td>-0.80 (0.53)</td>
<td>-0.86 (0.57)</td>
</tr>
<tr>
<td>(Growth)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Economic Crisis Dummy (_{t-1})</td>
<td>-2.99 (1.90)</td>
<td>2.99 (3.42)</td>
</tr>
<tr>
<td>(Global Context)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>46.31 (16.78) ***</td>
<td>45.14 (29.52)</td>
</tr>
</tbody>
</table>

| Observations (N)                       | 251                                                      | 251                                    |
| # groups (MFIs)                        | 43                                                      | 43                                     |
| R\(^2\)                                | 0.53                                                   | 0.34                                  |
| Wald \(\chi^2\)                       | 207.19 ***                                             | 8.93 ***                              |
| F (11, 42)                             |                                                         |                                        |

**NOTES:**

*** - significant at p < 0.01, two-tailed test  
**  - significant at p < 0.05, two-tailed test  
*   - significant at p < 0.10, two-tailed test

**OLS Models:** Pairwise option was used in calculating the model (see StataCorp, 2003).  
**FE Models:** Robust standard errors clustered on MFIs used to control for heteroskedasticity.
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NOTES

1. Since traditional banks are not willing to give loans to poor people without collateral, the poor are not able to invest in ventures that could potentially get them out of poverty. Traditional banking systems have difficulty providing loans to the poor because of asymmetry of information between borrower and lender, including screening, monitoring and enforcing credit contracts (Bhatt and Tang 1998, 119).

2. We owe some of these points to interviews by the second author with MFI officials from a country in Southeast Asia. Interviewees noted the need for MFI staff members to use bribery to keep local officials from impeding MFI work, and detailed restrictions placed on movement within given regions by international donors seeking to monitor or aid MFIs in sensitive areas.

3. For an alternative set of critiques of the negative effects of social capital focused on how microcredit lending may actually reinforce gendered oppression, see Rankin (2002).

4. However, some literature suggests that even though the woman would not be controlling the funds directly, this will indirectly improve her standing within the family and community by becoming an avenue of credit for a household (Wright 2000, 4).

5. When lenders charge high interest rates it can negatively affect repayment rates by discouraging creditworthy borrowers or tempting borrowers to opt for riskier projects (Stiglitz and Weiss 1981).

6. A “Trust Group” is “10 to 30 entrepreneurs, usually women [who] pledge to guarantee each other’s loans and support one another’s businesses.” (Opportunity International 2012).

7. See Norell (2001) or Rosenberg (2006) for excellent discussions of the relative advantages of using Portfolio at Risk greater than 30 Days as a measure of arrears or loan repayment delinquency.

8. We owe this point to an interview by the second author with a co-founder of Conscience Community Development and Aid, a microfinance institution in Myanmar.

9. In the sample used in this study, there was little correlation between our measure of the MFI portfolio at risk greater than 30 days and operational self-sustainability ($r = -0.056$).

10. Standard practice dictates that we recode all values of 0 as 1 before taking the natural log. However, doing so means that those values wind up greater than other values above 0 but below 1, since we have other observations in the sample with values of PAR<30 greater than 0 but less that 1. Hence our decision to recode zeroes as 0.01, which is very close to 0, but still less than the next lowest value of PAR<30 in our data set, 0.06.

11. This is only partially related to profitability, though both self-sustainability and profitability means more capital available for loans or other financial services. We decided not to use an MFI’s profit margin as an indicator of success in part because of critiques of it as a measure of MFI success (Cull, Demirgüç-Kunt and Morduch 2007). Also, when used in place of operational self-sustainability, the dependent variable is almost completely determined by the lagged dependent variable, yielding little in terms of explanatory power to a study such as this one.
As Rosenberg (2006, 4) notes, both Return on Assets and Return on Equity “are appropriate indicators for unsubsidized institutions. But donor interventions more typically deal with institutions that receive substantial subsidies, most often in the form of grants or loans at below-market interest rates. In such cases, the critical question is whether the institution will be able to maintain itself and grow when continuing subsidies are no longer available.” This suggests that self-sufficiency measures are more appropriate indicators of MFI success.

We use this measure in part because some of these rights are relevant to the typical clients of MFIs, and in part because we want measures of rights from within the same data set (CIRI) so as to be able to better compare rights across type. We are sensitive to the possibility that other measures of gender equality, which are either directly or indirectly related to women’s economic rights, should also be considered. An excellent alternative measure is the UN Development Programme’s (UNDP) Gendered Inequality Index (GII).

The Gender Inequality Index (GII) reflects women’s disadvantage in three dimensions—reproductive health, empowerment and the labour market—for as many countries as data of reasonable quality allow. The index shows the loss in human development due to inequality between female and male achievements in these dimensions. It ranges from 0, which indicates that women and men fare equally, to 1, which indicates that women fare as poorly as possible in all measured dimensions. The health dimension is measured by two indicators: maternal mortality ratio and the adolescent fertility rate. The empowerment dimension is also measured by two indicators: the share of parliamentary seats held by each sex and by secondary and higher education attainment levels. The labour dimension is measured by women’s participation in the work force. The Gender Inequality Index is designed to reveal the extent to which national achievements in these aspects of human development are eroded by gender inequality, and to provide empirical foundations for policy analysis and advocacy efforts (UNDP 2013).

Unfortunately, the GII is only available for select years (2000, 2005, 2010) in the time frame of interest. Using this measure as a substitute for women’s economic rights would dramatically reduce our sample size, so we choose not to employ it. However, to insure that Women’s Economic Rights still captures the essence of these issues, we checked the correlations between it and the GII. In 2000 (r=-0.62), 2005 (r=-0.68), and 2010 (r=-0.71), these indicators were highly and negatively correlated, and all correlations were statistically significant (p < 0.01). That is, greater economic rights for women are strongly associated with less gendered economic inequality. As such, we are confident that we have accounted both directly for those factors included in the CIRI Women’s Economic Rights, and indirectly for the economic and social rights accounted for by the GII.

We had hoped to include Women’s Social Rights as well, but the CIRI data set does not have consistent yearly data across space and time for that indicator. This would dramatically reduce (by more than half) the number of observations in the study. Moreover, while Women’s Economic and Political Rights are (perhaps surprisingly) not highly correlated within this study’s sample (r = 0.120), Women’s Social Rights are strongly correlated with Women’s Economic Rights (r = 0.481). Therefore, we omitted Women’s Social Rights from this study.
15. None of the four human rights-related indicators are strongly correlated with one another. All correlations between and among the human rights indicators have correlation coefficients of \( r < 0.200 \). However, to account for the possibility that including all of these indicators in one model simultaneously might affect the results, we re-ran our models for all three dependent variables removing one or both of the non-gendered rights variables. The substantive results barely changed. Therefore, we include in this paper only those models that include all four human rights variables.

16. Rosenberg (2006, 2) argues: “[t]his indicator is more useful than the cumulative number of loans made or of clients served during a period. Among other distortions, cumulative numbers make an MFI offering short-term loans look better than one providing longer-term loans. The recommended measure counts active clients rather than ‘members’ in order to reflect actual service delivery: members may be inactive for long periods of time, especially in financial cooperatives.”

17. We also considered including the Average Loan Balance per Borrower, indicating the typical size of the loans given by the MFI, as a control for the depth of outreach to the poorest of the poor, and by extension the poverty level of the MFI clientele (Rosenberg 2006, 2). Rosenberg (2006, 2) explains that Average Loan Balance per Borrower is a rough proxy for poverty of the MFI clientele “because better-off clients tend to be uninterested in smaller loans.” However, he cautions that “[l]ow loan sizes do not guarantee a poor clientele. Likewise, growth in average loan size does not necessarily mean that a MFI is suffering ‘mission drift.’ As an MFI matures and growth slows, a lower percentage of its clients are first-time borrowers, and average loan sizes will rise even if there has been no shift in the market it is serving.” This methodological concern, plus the high degree to which Average Loan Balance per Borrower is correlated with some of our other variables, convinced us to omit this variable from our models.

18. As a robustness check, we also ran an alternative specification of this model, which included the lagged version of Portfolio at Risk > 30 Days to account for the possibility that problems with loan repayment might affect Operational Self-Sufficiency of MFIs. That variable turned out to be not significant, nor did the rest of the model see substantive changes in effects or significance, so we did not include these results here due to space considerations. They are available on the authors’ website along with replication data for all of the models described here.