

Making a Major Impact with Microfinance

As microfinance initiatives gain momentum in developing economies, they also find their place in the b-school curriculum.

by Sharon Shinn

The microfinance revolution began when Bangladeshi economics professor Muhammad Yunus first handed over a few dollars to an impoverished basket weaver in 1974. Since then, the movement toward microfinance—the granting of very small loans to the poorest people in the world to enable them to run small businesses that will lift them out of poverty—has won passionate supporters across the globe. Last year, Yunus and the microfinance institution he founded, Grameen Bank, shared the Nobel Peace Prize.

As organizations ranging from the World Bank to privately funded enterprises devote more resources to microfinance initiatives, business schools are responding by offering electives and programs designed to teach students how to function in this specialized area of business. According to Michael Chu, senior lecturer at Harvard Business School in Cambridge, Massachusetts, “Microfinance is a leading example of why business schools have a huge role to play in impacting global poverty. The bulk of global poverty is concentrated in the developing world, which is where the state and the government have many challenges in functioning well. That leaves an enormous space for business.”

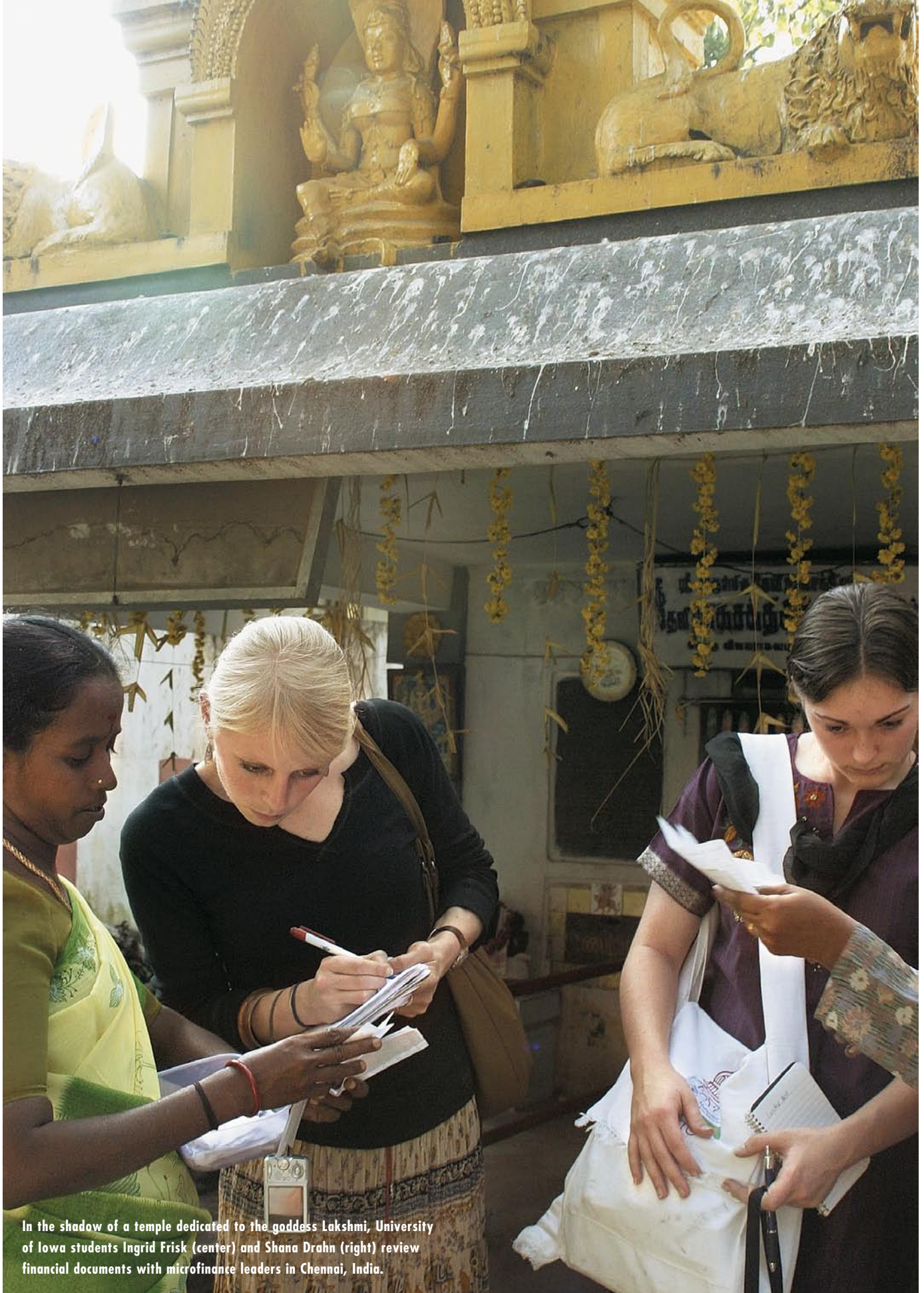
Some schools teach microfinance as a component of social enterprise, a way of doing good through business. Others focus on its commercial applications—the high rate of return on loans, the profit potential inherent in partnering with the poor. No matter what the approach, those in the vanguard see the topic as one that is critical to business, business schools, and the world.

Microfinance and the B-School

While microfinance can appeal equally to idealists and pragmatists, it’s becoming popular in business schools because it works on a very quantifiable level. “Microfinance isn’t just about ideals—it’s about wedding vision with concrete financial reality,” says Andrea Wuerth, program director for the Martindale Center for the Study of Private Enterprise at Lehigh University in Bethlehem, Pennsylvania. “What has kept us from extending basic financial services to the poor is often a prejudice against them, thinking they don’t know how to manage money. Microfinance has proven that erroneous.”

But understanding microfinance requires a different kind of knowledge than a student might get through a standard finance curriculum. That’s because microfinance is delivered through a bewildering array of models. Major institutions like Citibank, Deutsche Bank, and HSBC have microfinance initiatives, but so do donor-driven enterprises, government offices, and nongovernmental agencies. How they distribute money and how they collect it varies with the organization.

“Not only are there different models for providing loans, there are different criteria for deciding who can get the money,” says Edwin Brands, an adjunct professor in



In the shadow of a temple dedicated to the goddess Lakshmi, University of Iowa students Ingrid Frisk (center) and Shana Drahn (right) review financial documents with microfinance leaders in Chennai, India.

Program Parameters

More schools are adding microfinance components to their curricula as standalone courses or segments of other classes. To make sure such initiatives are successful, administrators might keep this advice in mind:

Begin with a single course or modest goals. Most schools don't have the advantage of Tufts University, which just received a \$100 million endowment from eBay's Pierre Omidyar to start a microfinance program, or the University of Maryland, which received \$6 million from the Bill and Melinda Gates Foundation to assess the impact of microfinance grants. "Unless you get a big donation to fund the program, it makes sense to start small," says Edwin Brands of the University of Iowa.

Reach out to everyone. "Involve as many people as possible—not only in your school, but also in the local community," says Brands. "Then you can generate more buzz about your program." The Iowa professors described their India trip to community leaders and local businesspeople, who donated small grants to help defray the costs of travel. "I think people in the community can appreciate microfinance because many of them started small or have been in situations where they needed loans to get them past the next month," says Brands.

Plan visits to microfinance organizations. "A good microfinance program really needs to have a hands-on component," says Andrea Wuerth of Lehigh University. "I don't think you understand microfinance or believe it's possible until you see it. A microfinance program should allow students to do internships, act as consultants, or just go on fact-finding trips."

Take advantage of your assets. A school with a strong finance program should incorporate microfinance into that curriculum; a school whose strength is global citizenship could tackle microfinance from that perspective. Says Wuerth, "Lehigh's traditional strengths are technology and engineering, so technology was a key part of the project we undertook in Honduras."

Make friends. "It helps to have a connection to a microfinance institution," says Brands. "Cultivate a relationship with a nonprofit, or a foundation, or even another university that already does work in this area." Wuerth agrees; Lehigh planned its trip to Honduras using the connections already in place through programs run by the anthropology department.

Look for an advocate. "Initiatives in academic institutions rise or fall depending on the presence or absence of a faculty champion," says Ronald Chua of the Asian Institute of Management. A motivated faculty champion can promote the microfinance agenda and win the support of others—in the business school, the university, and the community.



NAT ROBINSON

Chris Baxley, an Owen Graduate School of Management student (seated at right), distributes a microloan to a local villager in Sadhashivpet, India, as part of Project Pyramid, a new cross-campus initiative at Vanderbilt University aimed at ending global poverty.

the departments of geography and international studies at the University of Iowa in Iowa City. "Some organizations want people who have already started a business. Others focus on people they determine through some method to be poor. It can all be very political. You see Muhammad Yunus give \$100 to someone who needs a micro loan; but then you realize that other efforts at microfinance are done in a culturally specific context by different people with different motivations."

Different approaches obviously lead to the potential for a wide variety of b-school programs, or at least the inclusion of microfinance concepts in a number of spots in the curriculum. "It can be part of finance, or entrepreneurship, or basic economics, or even ethics," says Wuerth. "We're incorporating microfinance now in our socially responsible investment class."

At Harvard, Chu and his colleague, professor V. Kasturi Rangan, include microfinance in their courses "Business and Base of the Pyramid Markets" and "Effective Leadership of Social Enterprise." As microfinance evolves, Chu expects it to be covered in courses on banking and financial services, particularly those servicing emerging markets, as well as in courses that discuss business and low-income sectors.

"For business to be successful in low-income sectors it will require an infrastructure that is very different from infrastructure in businesses at the top of the pyramid," Chu says. "You could say that everything that applies to business also applies to low-income business—marketing, production, distribution, and so on. But the key thing to know is that marketing in low-income sectors is very different. Production is very different. So is distribution."

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—Elizabeth Nicole King, divinity student, Vanderbilt University

Perhaps what’s important is not so much *how* the topic is covered as *why*. The answer is very clear for professor Ronald T. Chua of the Asian Institute of Management (AIM), Manila, the Philippines. “AIM has a mission of developing managers of Asia who are entrepreneurial and socially responsible. Poverty in Asia remains a stark reality; and, at minimum, equipping our graduates with an awareness of the challenges of addressing poverty is an important part of fulfilling our mission. Schools whose graduates will have to work in a context where poverty is a critical concern need to prepare their students. That is part of being relevant.”

Interconnected Initiatives

Microfinance is such a broad concept that it can reach across the whole b-school curriculum—and, indeed, the whole university. While microfinance initiatives most often find a home

in the business school, Brands points out that many aspects of microfinance fit more comfortably into other disciplines, such as environmental protection, social change, sociology, and international studies.

At Vanderbilt University in Nashville, Tennessee, a microfinance initiative called Project Pyramid brings together students from the Owen Graduate School of Management with divinity students. Participants in the program, which is entirely student-driven, headed to India in March to bring their business plan ideas to entrepreneurs at the base of the pyramid. According to Owen student and Project Pyramid co-creator Rehan Choudhry, the goal was to “arm graduate students with the tools to create sustainable businesses and programs that effectively combat poverty.”

Members of the program say their very different perspectives on the world created a valuable synergy for reaching their goals. “One of the questions brought up in class was, ‘Are we going in to make money or are we going in to better lives?’” says divinity student Elizabeth Nicole King. “In today’s global environment, I have to embrace the business world. If I don’t, I’m the one who loses out in my initiatives for empowering the poor.”

Administrators at both the University of Iowa and Lehigh University also capitalized on the multidisciplinary aspect of microfinance when they recruited mixed groups of majors to travel to developing countries to study microfinance. As detailed in “Destination: Microfinance” (on page 30), the Lehigh group, which traveled to Honduras, included graduate and undergraduate students in business, anthropology, engineering, and computer science. “The business students enjoyed problem-solving with the multidisciplinary group,” says Wuerth. “They got involved in mutually beneficial teamwork.”

The Iowa group that headed to India was similarly blended, and Brands thinks the project benefited from the diversity. “It worked well because the discussions that went on among the students were much broader,” he says. “In a situation like this, if we are all engineers, we might just be interested in a small business that deals with solid waste or bio fuel. Whereas if we have students and faculty from anthropology and finance and geography and international studies, we get to see a much bigger picture.”

He thinks any microfinance initiative should include students from women’s studies, because 90 percent of the microfinance participants are women. On his recent trip, he was also impressed by what the photojournalism students brought to the project. “They were able to combine video and music in a thought-provoking way,” he says. Such a graphic visual tool can be very powerful if a school is trying

Educating the Microfinance Leaders

This spring, Harvard Business School will hold its second executive education session focused on microfinance—but at a very high level. The HBS-ACCIÓN Program on Strategic Leadership for Microfinance is aimed at top executives from leading microfinance institutions who need to be prepared for doing business in an industry that is seeing impressive growth. ACCIÓN International is a private nonprofit microfinance organization that works primarily in Latin America, the Caribbean, the U.S., and Africa.

Over its 30 years of development, microfinance has been very successful, notes Michael Chu, who co-chairs the program. However, he notes, the field is changing very fast—and that presents new challenges to microfinance executives. “Are these leaders prepared to face wholesale challenges that are external to the organization? Corporate strategy, competition, the entry of new players, managing growing organizations—they require a totally new set of skills.” Harvard’s executive education program targets those specific skills.

Harvard’s first microfinance executive education program drew 61 participants from 33 countries and HBS faculty from all over the curriculum. Not only were participants immersed in topics related to organizational leadership, but they had a chance to form peer consultancy groups to discuss their individual issues with other attendees—and learn from each other today about the challenges they will face tomorrow.

to promote its microfinance program, he says, since it can be shown to administrators, sponsors, and other students who might be interested in a future trip or a course.

The Right Student Attitude

Just as there is more than one approach to teaching microfinance, there is more than one type of student who might sign up to learn about it. Brands and Wuerth find that many of their students are also interested in sustainable development and corporate social responsibility. "For instance, two of the

Destination: Microfinance

If seeing is believing, then students at two U.S. universities had a chance to become believers when they traveled to very different parts of the world to see microfinance in action.

A multidisciplinary group of students from Lehigh University traveled to Honduras in 2006 to work with REDMICROH, a network of microfinance institutions headquartered in Tegucigalpa. Their goal was to use their technology skills to make REDMICROH more efficient—specifically by developing a program for handheld PDAs that would help loan officers in the field quickly enter information about their clients and consolidate the loan process from about three days to 20 minutes.

The team of students—including economics, computer sciences, and business majors—were accompanied by Andrea Wuerth of Lehigh's Martindale Center for the Study of Private Enterprise and Todd Watkins, associate professor of economics at Lehigh's College of Business and Economics. Watkins and Wuerth had been teaching a microfinance class since the spring of 2005, and Watkins secured a grant that would fund the trip. During the ten-day visit, students visited with five microfinance organizations with different approaches, philosophies, and geographic focuses.

Wuerth believes that the participating students came back with a changed perspective of the world. "These are kids who, almost exclusively, grew up in suburban environments," she says. "They had never seen anything like the poverty they saw there. At the same time, they expected people to be more downtrodden. What we saw were people making a heck of a lot out of very little. They were taking out small loans and using the money to turn their lives around. It was a life-altering experience for students." She plans to accompany another group to Honduras again this spring.

Lehigh University students Scott Menzer and Kelsey Smith work with Cesar Alfaro of FUNED, looking for ways to make microfinance organizations in Honduras like FUNED more efficient.



In a similar fashion, a multidisciplinary group of 17 students from the University of Iowa traveled to India between December 2006 and January 2007 as part of their course on "Microfinance for Women-Run Enterprises." The class was led by geography professor Rangaswamy Rajagopal, adjunct professor Edwin Brands, and Christine Brus, director of Women in Science and Engineering.

"During a semester-long course at the university, we read about microfinance in different parts of the world and looked at different models," says Brands. But much of the real learning occurred in India. There, students actually got to meet the people involved, he says, including loan recipients and individuals running microfinance organizations. While some of the lessons students learned might not have an immediate relation to coursework, Brands believes those lessons will stick with students a long time.

"My hopes are that the students will have a broader perspective, not just on microfinance, but on what it's like to be running a small business by the shoestrings when your family depends on it to eat," says Brands. "Perhaps there's a couple with their two children living in a ten-by-ten hut. They bend metal to make fasteners for stainless steel buckets. They have a fire going, and the baby's there, and the two-year-old is there, and they do this work every day, all day long. Seeing that gives students a very real perspective on the world. Speaking personally, I've never felt richer than I did when I came back here."

ANDREA WUERTH

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engineers who were with us also belong to a group called Engineers for a Sustainable World,” says Brands.

In fact, Wuerth thinks that interest in microfinance has been driven at some schools by the students themselves. “The students are the ones who have a sense of wanting to do good and do well at the same time,” she says. She believes many students of this generation are committed to a strong community and a better world, unlike students of previous generations who all wanted to be Wall Street analysts. “It seems the pendulum is swinging the other way,” she says.

Mainstreaming Microfinance

At the Asian Institute of Management, a variety of microfinance initiatives have been designed with the goal of appealing to both practitioners who need expertise and MBA students who need an introduction to the field. “Our first objective is to strengthen the management capacity of existing microfinance institutions in our country,” says AIM’s Ronald Chua. “Our second is to ‘plant the seeds’ of interest in microfinance into AIM’s programs and courses, particularly its degree programs.”

To meet the needs of practitioners, the school has launched an 18-month microfinance track in its master in entrepreneurship degree program. Participants are often heads of microfinance institutions or responsible for a profit center at such an organization. AIM has also developed a suite of short management courses designed for senior managers of microfinance institutions and covering topics such as strategic planning and implementation, human resource management, marketing to the bottom of the pyramid, and microfinance in hard-to-reach areas.

Some of the microfinance cases studied in these management courses also can be used in AIM’s other degree programs. For instance, Chua teaches a mainstream “Banking with the Poor” elective that is designed to interest AIM’s MBA students in microfinance—and it’s working. Most recently, out of a class of 99 MBA students, 27 enrolled in a microfinance elective.

Some of AIM’s microfinance programs have been made possible by seed money given by the Microfinance Management Institute (MFMI), which has funded a three-year research grant. AIM is one of a handful of schools that has become an MBA Project Partner with MFMI and offers courses dedicated to creating and diversifying the body of knowledge on microfinance.

Other students who exhibit an interest in microfinance are from countries where such programs are successful, she notes. “Many of our Indian, Pakistani, and Bangladeshi students know all about microfinance,” says Wuerth. “The more global a business school is, the more microfinance will be known to its students.”

To Harvard’s Chu, it’s not so obvious that the sustainable development crowd is leading the microfinance charge, but he suspects that’s because of the way Harvard teaches the topic. He says, “For example, in our microfinance executive education course, we look at corporate strategy, emerging markets, competition against multinationals, profit, growth, and control. From that perspective, it’s about understanding how to manage effectively in an industry that serves the low-income segment. But you could take a different approach and look at microfinance from the perspective of sustainable development and social impact, and you would look at completely different cases.”

A World of Good

No matter how they are structured, microfinance programs meet several key criteria for business schools. They offer schools opportunities to become involved in their communities and to participate in the global economy. They also give management students a chance to see the power of business to change the world. Even so, experts know that microfinance will not solve all the problems of the world—or even all the problems of the poor.

“Access to financial services is necessary and important, but it is not enough to lift people out of poverty,” says AIM’s Chua. “A problem arises when people expect microfinance to be a silver bullet.”

Today’s microfinance programs aren’t even scratching the surface of the potential, Brands says. “In India alone there are 300 million people below or at the poverty line, and only four or five million are being served by microfinance,” he says.

The numbers are growing, however. “In the 2006 Global Microcredit Summit in Halifax last November, it was announced that the goal of reaching 100,000 million poor women worldwide with microfinance was achieved in 2006,” says Chua. “The new goal is to reach 175 million poor women by 2015 and move 100 million of them out of poverty.”

That leaves a lot of room for business—and business schools—to maneuver. Business schools that want to participate in the microfinance revolution should identify their goals, pick their models, refine their approaches, and roll up their sleeves. There’s plenty of work to be done. ■