

MICROFINANCE: INTEREST RATES AND SOCIAL PERFORMANCE IN THE UNITED STATES AND GUATEMALA

Leslie Lipson Research Abstract

Jasmine Segall

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Microfinance, which is the provision of financial services (such as loans) to low-income clients who traditionally lack access to banking and other related resources, has seen rapid growth in Guatemala and the United States. I traveled to Guatemala to interview various loan officers and representatives of microfinance organizations for the first part of the summer, and worked with the Intersect Fund - a small microfinance nonprofit in New Jersey - for the remaining portion. In accordance with my original research question, I sought to understand how interest rates are determined by microfinance institutions (MFIs) in Guatemala and the United States, though I also expanded on my initial question to understand how aspects of business training services and social performance measurements differ in the two countries.

I discovered that microfinance in Guatemala differs substantially from that of the US in areas such as emphasis on loans versus training, interest rates, client acceptance processes, and industry regulation. Even in the MFIs that offered training programs in Guatemala, there appeared to be a greater focus on selling loans rather than business skills through training programs to clients. Conversely, because the application to loan disbursement conversion rate in the US is so low, there is a much greater emphasis on business training programs in MFIs in America than in Guatemala. In both countries, it is clear that the microfinance movement could benefit substantially from greater standardization, which, ideally, would come in the form of government and industry regulations to prohibit predatory lending, as well as a national - or better yet, global - standard of impact measurement developed from an independent source. Clear social performance indicators would help meter the industry's progress. Additionally, despite the recent development of the Consumer Financial Protection Bureau in response to the US financial crisis, laws governing interest rates vary by state, and predatory lending in the US continues to be a \$100 billion a year industry. Clearly, action needs to be taken in both countries to determine equitable standards for interest rates as well as to incentivize nonprofits to maintain their social missions.

Despite my project's many unexpected twists, I found my research experience incredibly rewarding. I learned so much about how the microfinance movement has progressed in Guatemala and the United States, and was inspired by the dedication and optimism of the loan officers I interviewed. My research this summer has reinforced my commitment to pursuing a career in poverty alleviation work.

**Full paper is available upon request at the office of the Prizes and Honors Coordinator.*