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Microfinance and its role in promoting small business development in the Adirondacks

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Introduction

While quality of life continues to improve in urban America, there is growing concern that rural America is falling behind, and in harmony with this trend, the continued economic hardships associated with living in the Adirondacks highlight the increased need for tools to promote economic development within the region. While increased access to capital is widely accepted as a necessary improvement in order to create economic development, there are many techniques for increasing this access each with varying levels of success, and the challenge is often to find the most suitable technique for a region given that regions unique characteristics. One of the key characteristics that set the Adirondacks apart from other rural regions is the presence of the Park, and as this paper looks to microfinance as a tool to increase access to capital, the Park must be weighed into every decision.

“Of course, the regulatory issues in the Park preclude a lot of businesses, particularly manufacturing,” said Jim Murphy, the CEO at Adirondack Economic Development Corporation (AEDC), through email (pers. comm., August 12, 2013). Jim also recognized that the Park is at the center of the tourism industry, and this industry is a central cog in the local Adirondack economy. In looking at which industries are promoted by microfinance industries within the Adirondacks, the presence of the Park makes tourism a key feature for economic development, and thus makes it a large draw for capital. For example, many of the micro-enterprises that the AEDC lends to are tied to tourism (J. Murphy, pers. comm., August 12, 2013). However, tourism can’t be the only industry to bring about healthy change, and therefore it is imperative that capital be loaned to small businesses outside the tourist industry as well. It is important to note that increased economic development is only a small part of the picture, as improving health, employment, environmental sustainability, decreased marginalization, and other indicators of increased quality of life are vital to happier, healthier, and generally improved communities. This fact is important because it leads to difficulties in measuring the effectiveness of microfinance in improving communities overall quality of life given the complexities of the issue. Given this, the struggle within the Adirondacks is between environmental preservation and economic development ("Smart Growth," 2013) and it is imperative that economic development be achieved in a manner that maintains the integrity of the Park, and it is through a symbiotic relationship between development and preservation that quality of life will be improved. To much development with little respect for the Park, or alternatively to much preservation with little respect for the economically disadvantaged communities within the Park degrade the quality of the region, and it is therefore essential that a common ground be reached. These two goals should not be mutually exclusive; as well thought out economic development should be able to achieve both these goals. This paper recognizes these tensions but will focus on promoting small business development as a means to bring increased capital flow to the region. While there is already the presence of microfinance institutions within the Park (J. Murphy, pers. comm., August 12, 2013), such as the AEDC, this paper will closely examine the many tools used by microfinance institutes across the globe and examine the role they could play within the Adirondacks to increase access to capital in a more efficient manner for a broader range of entrepreneurs.

Why Microfinance in the Adirondacks?

The importance of finding tools to promote economic development in the Adirondacks stems from the fact that the Adirondacks are an economically disadvantaged region, and it is important to understand why this is true. Basic economics state that due to diminishing marginal returns, which is the result of the production function taking a concave shape as assumed in introductory economics, enterprises with less capital should produce greater returns on investments Samuelson & Nordhaus, 2004). If this were true, traditional banks would constantly move into poorer regions and increase access to capital in these regions so as to maximize returns. However, traditional profit maximizing banks lend to enterprises with large amounts of capital and generally neglect the smaller enterprises leaving them with little access to capital, and this is largely due to risk and incomplete information (Finger, 2013). Banks need to be compensated for the risk associated with lending to low capital enterprises, and high interest rates necessary to compensate for this risk are not allowed due to interest rate restrictions imposed by the government (Luttrell, 1968, p. 1). The government does this because extremely high interest rates can actually be detrimental to banks because it decreases borrowers incentive to accept loans (Sanati, 2013), though banks would likely realize this and adjust accordingly. However, the main problem is the result of incomplete information and the transaction costs associated with making loans. While some within the Adirondack region have necessary collateral to cover loans, some do not, and it becomes difficult to lend to these borrowers. The two main problems resulting from incomplete information are adverse selection and moral hazard. Adverse selection occurs when banks have difficulty differentiating between risky and less risky borrowers, and by increasing interest rates to match this risk they are inviting in only the riskier borrowers (Akerlof, 1970, p. 492). Given the presence of credit scores and strong judicial systems within the Adirondacks, it is likely this would be less of an issue. However, it seems likely that moral hazard presents a greater problem in the Adirondacks, given the low population density. Moral hazard occurs because it is difficult for banks to make sure borrowers use the loan for an enterprise that they are going to work hard enough on so as to pay back the loan. This occurs when the borrower will not feel the costs associated with not repaying the loan. Given the low population density within the Adirondacks, costs associated with monitoring borrowers so as to help mitigate moral hazard would be higher. These two problems that arise as a result of incomplete information are issues that banks are forced to take precautions to mitigate, and it is important to understand these issues because many of the practices used by microfinance institutions are meant to diminish these problems in less costly ways. It is issues like these, as well as risk, that result in banks not lending capital to economically disadvantaged regions, and this is why it is necessary to look at potential tools for limiting these issues and therefore increasing access to capital for these regions.

History of Microfinance

In order to fully grasp the extent to which microfinance practices can successfully promote economic development within the Adirondack region, it is necessary to observe the progression of microfinance over the last couple of centuries as it has developed into a respected tool for diminishing poverty in poor regions of the world and increasing economic activity and overall quality of life. It is difficult to pinpoint when microfinance first began as there have been many services dating back hundreds of years that resemble those provided by what is today thought of as microfinance.

Perhaps the first resemblance to microfinance dates back to 1462 when Barnaba Manassei of Terni, a Franciscan Monk, created the first pawn shop to serve the poor living in Perugia (Giandomenico, 1989, p. 119). He created the Monte de Pieta (Mount of Piety) as a charity and issued interest free loans or loans with just enough interest to keep the pawn shop operational (Lowe, 1993). Borrowers were allowed to pawn household items as collateral. The pawn shop was financed by donations from the wealthy, and while pawn shops of the 15th century did not have many of the characteristics of present day microfinance institutions, these pawn shops are often pointed to as the beginning of the microfinance model.

The term microcredit and the way in which it is understood today came to be in 1976 when social pioneer and Nobel Peace Prize recipient Muhammed Yunus began to develop present day concepts of microfinance and eventually founded the Grameen Bank years later. While other pioneers had developed lending institutions based on many of the principles of microfinance years before Yunus first lent money in 1976, Yunus's lending programs grew rapidly, and with the development of the Grameen Bank as an authorized national bank in 1983 it brought national attention to microfinance as a legitimate tool for aiding the economically disadvantaged (Yunus, 1999). The concept expanded from the Grameen Bank and other pioneer institutions and Microfinance Institutes began establishing themselves around the world. New institutes formed and old institutes spread and in 2012, according to the Microcredit Summit Report 2013, microfinance providers reached 195 million clients in that year alone (Reed, 2013, p. 2).

While the majority of these institutions are in poorer regions of developing countries, there is a history of microfinance within the United States since the early 1970s. In 1973, the Shorebank Corporation was founded in Chicago and provided capital to those deemed by the large financial institutions as too risky to receive loans (Opportunity Fund, 2011, p. 3). At the same time in Montana, the Women's Economic Development was also demonstrating that small business owners and entrepreneurs in regions facing economic hardship are worthy of receiving capital (Opportunity Fund, 2011, p. 3). Over the last several decades it has spread across the United States with large Institutions in New York City and Los Angeles. While microfinance remains a contentious topic, and much more research is needed to gauge just how successful microfinance has been within the United States, and just how to gauge success, the speed with which it has spread across the globe is a testament to some level of "success".

How to Gauge Effectiveness

There are many different methods to measure just how effective microfinance might be in the future promotion of small business development in the Adirondacks, and often an integrative approach making assessment based on several different methods results in the most wholesome analysis. In a perfect world, a framework would be used to gauge the success of Microfinance Institutes on a specified disadvantaged population within the Adirondacks, and then time travel would occur and this same group would be analyzed again using the same framework but without the aid of Microfinance Institutes. Even circumnavigating the issue of time travel and gauging a similar control group using the same framework was not possible in this project, given time and manpower limitations. Given the limited history of microfinance in the Adirondacks, this paper aims to raise more questions than it answers, and begin a discourse on microfinance as a potentially powerful tool in the creation of economic development within the region. To reach this goal, it will include a literature review on the successes and failures of microfinance throughout history, and will taper this approach through an interview with the Jim Murphy the CEO of the AEDC, a not-for-profit economic development corporation providing “lending [including micro-loans] and technical assistance to women, minorities, and disadvantaged aspiring entrepreneurs throughout the Adirondack region” (aedconline, 2012) as well as through an interview with a longtime local boat builder and entrepreneur of the region.

Methods

In order to analyze the extent to which microfinance could be a useful tool in promoting small business development within the Adirondacks, I first reviewed literature on microfinance. Not only did I use this review to grasp a general understanding of the history and models of microfinance, but I also reviewed how studies analyzing the success of microfinance had been conducted in other countries. Given that there is little presence of microfinance practices within the Adirondacks, I looked at these studies to discover the important questions that need to be asked rather than as a model that I would myself use. However, I did use these studies to formulate possible future studies that could be conducted within the Adirondacks to gauge its success if or when microfinance becomes a key player in the regions economic development. Given the lack of literature giving specific insights on the Adirondacks, I conducted two interviews of individuals with insights into the Adirondacks and used these interviews to compliment my literature review.

The first interview I conducted was an email interview with Mason Smith on August 6th, 2013. Mason was born in upstate New York in 1936 and is a longtime local boat builder of the Adirondacks, as his family has owned a 1904 cottage in the northern Adirondacks (Adirondack Goodboat, no date). Having met Mason earlier in the summer and discussed my project with him over dinner in Long Lake, I realized he could serve a very valuable role in my research. While Mason is by no means an expert on microfinance, he is an accomplished writer holding his PhD in English and American literature from Stanford and author of several books (Adirondack Goodboat, no date), and given his experience as an entrepreneur boat builder in the Adirondacks, he represented a unique look at life as a small business owner in the Adirondacks and had the background to eloquently describe his experience. I drafted up 11 questions for Mason and he responded to each to the best of his ability. Mason's largest shortcoming was that he had little background on microfinance, though he had previously mused over different institutions that could increase access to capital in his community. To overcome this shortcoming, I conducted a second interview with an expert on loans within the Adirondacks.

The second interview I conducted was an email interview with Jim Murphy, the executive director of the AEDC. This interview was conducted on August 12th, 2013. I chose Jim as my interviewee because the AEDC is an example of a microfinance institute that has worked to promote small business development within the Adirondacks for over three decades, and given Jim's role as executive director of the business, he had a great understanding of what had worked and what had not worked for his Adirondack focused microfinance institution over the last several decades. I drafted 11 slightly different questions for Jim so as to take advantage of his experience and expertise with microfinance. I used my interview with Jim Murphy as my main source on the current use of microfinance within the Adirondacks given that up to date literature is limited on the subject. Thus Jim proved a vital resource for my project. While Jim was an expert on the methods used by the AEDC, this paper aims to look at other methods and services beyond those offered by the AEDC and other microfinance institutions within the Adirondacks, and gauge whether these could successfully further the scope of the population within the Adirondacks that has access to capital by implementing them into already present institutions as well as new institutions moving forward.

Results

Through a review of the literature in conjunction with the results of the interviews, it was very evident that the Adirondacks would be best served through a multitude of services often provided by microfinance institutions. While there are several different means with which to make these services available within the region, it seems likely that with increased awareness on the potential of these services, already established banks and similar institutions would begin to make them available over time. The model used by microfinance institutions uses a variety of tools to limit transaction costs so as to provide for disadvantaged communities while only demanding a reasonable level of compensation for the risk they accept by offering services and capital in these regions. Though it is impossible to say with certainty which services often offered in the microfinance model are best suited for the Adirondacks without experiencing and studying them first hand within the region, a currently impossible study given that these services are for the most part not offered to communities in the Adirondacks, this paper suggests services that are most pliable and can easily be molded into successful tools for promoting small business development for the region and are therefore most likely to benefit small enterprises.

Results on Services and Lending Practices

The most common service and most direct way to increase access to capital is through making loans to a broader populace. Individuals with access to capital have greater opportunity, as it is difficult to break the cycle of poverty without capital. For example, as a young man with tremendous boat building skills, Mason Smith took out a $10,000 dollar loan to “design and develop the system for the Goodboat” (pers. comm., August 6, 2013). Mason happened to be in the position to take out such a loan, and was able to create a successful boat building business as a result. The issue in the Adirondacks is that many entrepreneurs do not have access to even much smaller loans because they do not meet the criterion of the lenders. This can be due to a long list of shortcomings such as a lack of information on the financial history of the borrower resulting in high transaction costs for the lenders associated with mitigating moral hazard and adverse selection, a lack of collateral as compensation for the risk of default or late/partial repayment on loans, etc. However, through review of the literature as well as communications with Mason Smith and Jim Murphy there are several practices used by microfinance institutions that could prove useful within the Adirondacks by allowing a greater populace to have access to loans.

The most well known practice used by microfinance institutions to lower transaction costs is group lending. This method of lending, made famous by Muhammed Yunus's Grameen Bank model, creates joint liability between a group of five borrowers in the classic approach so that the borrowers within the group essentially serve as guarantors for each other.

Additionally, microfinance institutes often increase chances of loan repayment by lending predominantly to women. This tactic is used because women are shown to have loan repayment rates then men (Khandher, Khalily, & Khan, 1995). On top of this, institutes can require public payment to increase loan repayment rates (Kono, 2007, p. 3). Public repayments of loans incentivize borrowers to repay loans so as to avoid public shame. Group settings for public repayment also reduce transaction costs for institutes.

Another model of the Grameen Bank that would likely be effective in the Adirondacks is one that creates dynamic incentives by making small initial loans and increasing loan sizes as initial loans are repaid (Kumar, 2012). In addition, as private institutions offering these loans, the threat of halted lending following the default on a loan is added incentive, and is easily carried out without the political pressure faced by government lenders. These methods not only create incentive but also develop a reliable relationship between borrower and lender and tie in nicely with lending to women predominantly.

A final method used is to look at collateral less as compensation and more as an incentive tool (Armendariz & Morduch, 2010, p. 135). By doing this, unique forms of collateral can be used that may not hold monetary value to compensate the lending institution but holds significant personal value to the borrower therefore giving them adequate incentive to repay the loan. Using these practices will likely make loans available to a broader range of small business owners within the Adirondacks and will create an environment in which other services can be offered alongside loans.

A service that can be offered on top of loans and is not offered to much of the economically disadvantaged populace for similar reasons loans are not offered is insurance. Government programs are often too large and operate at large losses making them inefficient sellers of insurance (Winegarden, 2013). Additionally, most forms of informal insurance are far too costly for the aforementioned populace that doesn't have access to traditional insurance agencies. Given that insurance can often be offered along with loans, making them a two for one deal, it can be an easy and beneficial service for microfinance institutes to provide.

As seen by Mason Smith (pers. comm., August 6, 2013), the most important services to be offered in the Adirondacks are those that focus on teaching and tutoring small business owners and promoting greater success amongst them. Mason believes that a lack of "initiative, creativity, and flexibility" among entrepreneurs in the Adirondacks plays a large role in suppressing economic development (pers. comm., August 4, 2013), and services that help promote creative thinking have the potential to create great gains in the region. This can be done through programs that focus on the "active stimulation of ideas, assessment of unfulfilled needs and markets, [and] perhaps creation of groupings where individually nonviable businesses could combine and make complex viable ones" (M. Smith, pers. comm., August 6, 2013). This can be achieved through one-on-one tutoring, group training and classes, and networking services to help bring together "individually nonviable businesses".

In addition to all the previously mentioned examples, it is important that institutions offering the unique services listed above also offer the most basic service offered by traditional banks, and that is savings. Another service often provided by traditional banks and likely offering increased access to the before mentioned services is online banking. While many Americans take online banking for granted in the tech driven world we live in, according to Mason Smith (pers. comm., August 6, 2013), some of the community banks within the Adirondacks "aren't yet good at it," and this is an opportunity for institutions to offer a service that would be still somewhat unique to the region. Though online banking might disturb some of the tools previously mentioned in this section, it would also increase access to all services, and the balance that must be struck is discussed in greater depth later on in the paper. All of the regionally unique services mentioned in this section have complexities and intricacies that may prove adaptable and suitable for the Adirondacks and while it is difficult to say how successful these services will be without implementing them and observing the results, the following section will focus on these intricacies and attempt to pinpoint reasons why certain services may prove more successful at promoting small business development.

Discussion

Before looking more closely at the methods and services touched on in the previous section, it is important to reiterate exactly how these services and methods have the capacity to small business development within the Adirondacks. Both Mason Smith and Jim Murphy emphasized that there is plenty of capital available. Jim Murphy (pers. comm., August 12, 2013) detailed this quite well:

> Everyone I talk with says they have money to lend, although they continue to be quite conservative when it comes to commercial lending. Banks, but in particular venture capital, which is virtually nonexistent in the region, are at a disadvantage here because there is not adequate deal flow [rate at which they receive investment offers] and generally it takes longer for the profits venture capitalists seek to materialize. Banks, like us, are struggling to find good projects and, frankly, quality borrowers.

Jim elaborates on this by clarifying that while “demand is always there…there are not a lot of good plans being presented by people who do not have financial issues that disqualify them” (pers. comm., August 12 2013). That is not to say that those with financial issues present better plans but rather that these are the two issues facing institutions and limiting deal flow. Mason agreed and concluded that there are many needs that are not being met within the Adirondacks and while this partially has to do with scale in such a rural environment it is also largely due to "a lack of creative thinking," and a lack of education and knowledge on running a successful enterprise (pers. comm., August 6, 2013). This paper therefore looks to draw attention to, and analyze the potential of, services that could increase understanding on how to create a successful enterprise and therefore increase quality borrowers, and also look at methods that can limit costs and mitigate risk so that capital can be offered to those financially ineligible entrepreneurs that posses solid business proposals in such a way that the institutions offering these loans do no incur significant loss of profits or significant losses in the case of the not-for-profits such as the AEDC.

Discussion on Services and Lending Practices

According to Jim Murphy, "the best clients are those who have taken training and have done their market research and have developed viable business plans based on some significant legwork" (pers. comm., August 12, 2013). Offering services that help entrepreneurs better understand how to run a successful small business, and therefore increase the number of quality borrowers, may be the most important service for microfinance institutes within the Adirondacks to offer. Given that the AEDC struggles to find quality borrowers despite being one of just 24 EAP centers in New York offering business skills training (J. Murphy, pers. comm., August 12, 2013), it is evident that more services similar to these need to be offered in the region. Mason Smith backed this notion up pointing to these services as being most important, along with services that demonstrate needs that are not being met and help stimulate ideas for small businesses to help meet these needs (pers. comm., August 6, 2013). The scale of operations in the Adirondacks often leads to increased risk of business failure (M. Smith, pers. comm., August 6, 2013), and it is therefore of greater importance that these services be offered. Many entrepreneurs choose to dive in headfirst without receiving the necessary guidance, so it is helpful to use incentives to lead entrepreneurs to take the time and spend the money to receive this guidance. One way in which to do this, as done by the AEDC, is to offer lower interest rates for borrowers that have completed training (J. Murphy, pers. comm., August 12, 2013). Not only does this serve the borrower as they get the training and pay lower interest rates, but it also makes sense for the institution because a trained borrower is a higher quality borrower, and it is therefore financially appropriate to offer this borrower lower interest rates. Training can be offered through many forms including classes, group trainings on specific topics, one-on-one tutoring and technical work, etc., but the important thing is that training is offered, as there is definite need for it in the region.

While the above listed services are certainly necessary, they are nearly useless without loans. It would be a shame to have many trained, capable entrepreneurs, but no capital to get them started. While the AEDC and other microfinance institutions within the Adirondacks have successful made capital accessible to a greater number of disadvantaged small business owners, there remains room for improvement. Far to many entrepreneurs within the Adirondacks have viable business plans but struggle to find funding due to financial issues that disqualify them. This paper analyzes four methods used by microfinance institutions around the world to make lending to previously unqualified borrowers not just possible but even profitable.

The first, and most widely recognized model is group lending. Group lending is often used in place of collateral, or more specifically for entrepreneurs without adequate collateral. Jim Murphy claims that within the Adirondacks specifically, “collateral is always an issue, especially with startups and microenterprises” (pers. comm., August 12, 2013). While the AEDC does reach out to borrowers that traditional banks would not, often using “what the loan is paying for (like a piece of equipment) even if the loan to value and other traditional ratios are less than what a bank would do” (J. Murphy, pers. comm., August 12, 2013). Group lending aims to go beyond this, and replace the need for collateral thereby increasing access to capital for even more economically disadvantaged small business owners. The way group lending works is it includes usually five borrowers on the same loan contract (Grameen Research Inc., 2012). Individual borrowers are responsible for picking out their group, and if one member within the group cannot repay a loan, the others in the group are responsible for making the payment, or the cycle of loans being offered to all five borrowers is stopped. This model reduces transaction costs for the institutions because rather then the institution needing to determine which borrowers are quality borrowers and then monitor them throughout the repayment process to ensure that the borrower is doing their best to repay the loan, the borrowers are doing the work for them by picking out quality borrowers to be in their group and helping the other members within their group remain quality borrowers and likely to repay. Additionally, if one borrower struggles and would otherwise be unable to repay a loan, they can be covered for by another successful member in the group, and the institution receives its payment. While this model of joint liability has proven successful around the world, it is difficult to see it operating as efficiently within the Adirondacks given the low population density. This distance would make it difficult to find other borrowers and adequately determine if they had the traits and history of quality borrowers, and it would also make monitoring far more difficult. Despite group lending perhaps being the most celebrated aspect of microfinance, it does not seem to be a good fit for the Adirondacks. However, there is another tool that can be used to promote access to capital to borrowers within the Adirondacks that do not have adequate collateral in the traditional sense.

Traditional banks look at collateral as compensation for the loan. In reality, collateral that doesn't operate as compensation for the bank but still operates as incentive for the borrower is shown to be effective (Armendariz & Morduch, 2010, p. 135). Microfinance institutions will therefore accept collateral with low resale value but of great worth to the borrower. While the institution is not covered in the case of default, this method does provide proper incentive to the borrower all the same. While this flexible approach to collateral is not perfect, it does help incentivize borrowers and there are no easily recognizable reasons why this flexible approach would not be successful within the Adirondacks. There are other models that also help increase loan repayment rates.

Mason Smith believes that while "women in the Adirondacks may see less choice for themselves in work, and in enterprise," as compared to men, "with the right kind of stimulation" there are just as many female entrepreneurs as male entrepreneurs, and with women more likely to repay loans (khander, Khalily, & Khan, 1995), as is the findings of many studies around the world, a focus on lending to women and not men may be just the stimulation these aspiring entrepreneurs need to create successful new enterprises (M. Smith, pers. comm., August 6, 2013). As access to capital increases, and loans become available to more and more entrepreneurs within the Adirondacks, these lenders shouldn't only hesitate to continue making the majority of loans to male businessmen, they should embrace the fact that the majority of small loans should go to female entrepreneurs, and this concept should be embraced by all the people of the Adirondacks as a more efficient catalyst for economic development. The following are the arguments for why this is true. These arguments are based on generalizations of women in the US, and while it is generally not in the best interest to make decisions based on generalizations, they can be useful tools within the screening process in determining whom to lend to.

The first argument is that women borrowers have higher repayment rates than men (Khandher, Khalily, & Khan, 1995). Of course, this may be due to the fact that women are generally more risk averse and therefore while they may be more likely to repay loans, this risk-aversion may also lead to lesser profits. While this may hold true, the Adirondacks need more access to capital in order to promote small business development, and the best way to establish a steady relationship between lender and borrower is to consistently repay loans. It makes sense to establish this relationship in the early stages of economic development before taking greater risks.

Second, women may use their profits in ways that better promote development. Women are more likely to use their profits for expenditures within their household, when compared to men, and this often results in a focus on education and health for their children (Blumberg, 1989). The education and health of the next generation is extremely important in creating development within the Adirondacks.

Third, women tend to work closer to home (Emran, Morshed, Stieglitz, 2007). Given that group lending is a popular tool used to mitigate adverse selection and reduce screening and monitoring costs. If women tend to work closer to home, and move less for work, it becomes easier for them to monitor each other, and therefore makes group lending a more efficient tool for women within communities in Adirondacks as compared to men.

The final argument this paper will make is that due to the fact that women are generally poorer, under the assumed concavity of the production function, it holds that a loan given to a women will receive higher returns in general given that she posses less capital. This is the concept of diminishing returns.

An additional point worth mentioning is that this paper is not arguing for social investing, that is lending to women simply because they are economically and often times socially disadvantaged. Social investing often results in profit losses for the lending institution and since it is optimal for the institution to collect adequate returns so as to remain solvent and sustainable, it is imperative that the knowledge that women have higher repayment rates is used as a step in the screening process and not an end-all. The fact that women, with lower earning potential and less assets in general, should be privy to the majority of the loans is merely a result of this screening process, and that’s why it works.

While big banks continue to lend primarily to men so as to maximize returns, this lending is due to the fact that men are more commonly at the head of larger corporations, and it is these larger corporations that more traditional banks choose to lend to. In more rural settings like the Adirondacks, these large corporations do not exist, and it makes more sense to make small loans to female entrepreneurs to promote small business development. Additionally, Jim Murphy has noticed that women often make up more of the training classes offered by the AEDC (pers. comm., August 12, 2013). While it is impossible to say why men seem to more commonly “leap before they look” (J. Murphy, pers. comm., August 12, 2013), as previously stated, the best borrowers are those who have taken training, and if women are more likely to accept training, this is all the more incentive for institutions to lend predominantly to them.

As the US moves away from gender norms and towards gender equality, the issues presented here will become negligible. However, this will take decades if not centuries, and in the meantime, the inequalities faced by women must play a role in capital markets.

Another method for increasing loan repayment rates is offering small initial loans, with increasing loan sizes offered as the borrower demonstrates reliability (Kumar, 2012). This method of dynamic incentives would work well within the Adirondacks because aside from creating reliability and giving the borrower an incentive to continue paying back the loans so as to continue getting larger loans, it also works well to improve borrower credit score, and whereas in many developing countries credit score is not a realistic issue, in the Adirondacks this tool could be used to increase borrowers likelihood of being accepted by more traditional banks for future loans.

While all these methods may prove valuable to the Adirondacks in some way, they can all be used in conjunction with public repayment of loans. Microfinance institutes around the world use public repayments to help create incentives for borrowers to repay loans so as to avoid public humiliation (Kono, 2007, p. 3). While this method has proved beneficial to institutions in other regions, it would be a costly model to use in rural regions like the Adirondacks given the great distance borrowers would have to travel. However, given the Adirondacks location within a developed country, there is access to social media and other media platforms that are not available in other countries. While there is some literature on the role the internet can play on microfinance in terms of increasing access through programs such as Kiva, there was is no literature on the role social media could play as a tool to be used along with some of the methods described in this paper. For example, given improvements in social media, encounters made over the Internet feel more personal and close. Given this unique tool, group chats or other social media platforms could be used to create group settings for repayments to be made. It could be made clear who was supposed to be present and who was supposed to make payments, and through these platforms fear of social stigma could create incentives for borrowers to repay loans, and this incentive could be created without the added costs of bringing everyone physically together. Given that this is a new topic being introduced in this paper, there would be many hurdles to cross, but as social media continues to improve and become more realistic, the incentives would only increase. This being said, a very real challenge for the Adirondacks is the spotty broadband access.

However, according to Jim Murphy, “there is a lot of effort and money being spent to correct this situation” (pers. comm., August 12, 2013). According to Jim (pers. comm., August 12, 2013), this is largely being done so that online businesses can operate from within the Park. However, while Mason Smith acknowledges that many banks within the Adirondacks are not yet very skillful at online banking, he does see it as a helpful service within the region, and one that could be offered by microfinance institutions.

Another service that is easy and often profitable for microfinance institutes to offer is insurance. Similar to the case with loans, the reason insurance is not offered to this populace is largely due to moral hazard and adverse selection resulting in high transaction costs and difficulty enforcing policies. Microfinance institutes have had reasonable success offering insurance on top of loans, though no innovation has been thought up with the same level of success as group lending. Given that disadvantaged individuals not only suffer economically but also are often exposed to greater health risks (Braveman, Cubbin, Egerter, Williams, & Pamuk, 2010), insurance is a valuable service to offer on top of loans. There are many types of insurance that can be offered each with varying levels of success. While many microfinance institutes in rural areas have had success offering crop insurance, often better offered as rainfall insurance, the Adirondacks are unique from many other rural areas in that they don't heavily rely on the agriculture industry.

However, life insurance is often the first insurance offered by microfinance institutes because it is the easiest to offer (Bel, Dalal, Saunders, n. d., p. 1). Life insurance can serve as a gateway insurance as institutions can then offer other forms of insurance once life insurance has been established. There are no obvious barriers to offering life insurance in the Adirondacks so there is potential for it. Life insurance is generally offered on top of loans, with payments made through an increased interest rate (Armendariz, & Morduch, 2010, p. 195). Families are not only protected from unfortunate deaths by receiving a sum of money to help them cope financially, but additionally all unpaid loans are forgiven. This works well for surviving family of the borrower as well as for the institution because the family doesn't have to worry about paying off debt, and the institution doesn't have to worry about costs associated with tracking down family members and forcing them to repay loans. The institution is compensated through the regular payments made through the increased interest rate. The only issue with this common formula is that borrowers with larger loans make larger regular payments because a 1% increase in interest on a larger loan is more expensive then the same percent increase on a smaller loan (Bel, Dalal, Saunders, n. d., p. 3). This unfair valuation of the premium can be fixed through scaled payments to the dependents.

The final service that must be offered is savings accounts. While most traditional banks offer these accounts, it is a matter of convenience for borrowers from microfinance institutions to be able to save with that same institution, and saving is an important aspect of building wealth. Saving, even while borrowing, is important in escaping poverty and increasing economic development, demonstrating good money management and therefore more trust-worthy borrowers, serving as collateral if needed, and increasing capital within the institution. Many argue that saving is more effective then credit at building wealth among those hardest hit by poverty (Perkins, 2013), but whether or not this is accurate, almost all small business owners within the Adirondacks do not qualify as "those hardest hit by poverty," and therefore such arguments do not apply to the region, and most all entrepreneurs benefit from credit.

Conclusion

In conclusion, while microfinance remains an issue of contention with many arguing that giving credit to disadvantaged entrepreneurs only places them further in debt, and repayments only increase their financial burden, this paper argues that credit is a tool to build business's and subsequent wealth. All borrowers with strong business plans should have access to capital, and those with less realistic plans can be served through training and then gain access. Microfinance within the Adirondacks can improve credit scores, decrease reliance on welfare, and promote small business development. This has already been proven by microfinance institutes operating successfully for several decades within the region, and as these institutes begin to incorporate a greater number of services and lending practices described in this paper, the number of trained, quality entrepreneurs will increase, and fewer of these entrepreneurs will be turned away due to financial issues that disqualify them for access to capital. Additionally, if this paper, written by an undergraduate student studying the potential of increased microfinance practices, can demonstrate the potential for innovation through combining specific microfinance lending practices with social media, hiring experts in the field to continue this discourse and begin to implement it will result in countless more innovations that will orchestrate even more successful microfinance institutions in the region. On top of this, many small business owners currently look to grants to finance their enterprises, understandably because grants don't need to be repaid, but loans force small business owners to have more "skin in the game" then those accepting grants, and this has been proven to lead to more successful businesses. Creating access to capital through loans is a powerful tool for creating successful businesses, and successful businesses lead to economic development. This increase in bright business models created by larger numbers of quality borrowers who all have access to capital and all have increased "skin in the game" will lead to an increase in successful small business development and movement towards economic development across the region.

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