

## Comments

### **MICROCREDIT: NOT YET A PANACEA TO END TRAFFICKING IN WOMEN**

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#### I. INTRODUCTION

Human trafficking is a form of modern-day slavery.<sup>1</sup> Similar to traditional slaveholders, traffickers retain complete control over the enslaved, who must live and work as commanded by the trafficker.<sup>2</sup> Estimates vary widely on the number of trafficking victims, but the range is between one and twenty-seven million people.<sup>3</sup> Eighty percent of these victims are women.<sup>4</sup>

Although there are a number of factors that “push” women from countries of origin and “pull” them into destination countries, the greatest underlying cause of trafficking in women is poverty.<sup>5</sup>

In many cases, traffickers promise a better economic future and deceive women into accepting a fraudulent offer of employment abroad.<sup>6</sup> Once travel is underway, the trafficking situation begins. The trafficked

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1. See KATHRYN CULLEN-DUPONT, HUMAN TRAFFICKING 7 (2009).

2. *Id.*

3. *Id.* at 4.

4. See Dina Francesca Haynes, *(Not) Found Chained to a Bed in a Brothel: Conceptual, Legal, and Procedural Failures to Fulfill the Promise of the Trafficking Victims Protection Act*, 21 GEO. IMMIGR. L.J. 337, 342 (2007) (highlighting human trafficking as a crime that disproportionately affects women).

5. CULLEN-DUPONT, *supra* note 1, at 23.

6. CULLEN-DUPONT, *supra* note 1, at 25; see also ALEXIS A. ARONOWITZ, HUMAN TRAFFICKING, HUMAN MISERY: THE GLOBAL TRADE IN HUMAN BEINGS 55 (2009) (“Recruitment very often involves promises of marriage (or of employment, education opportunities, or a better life).”).

woman's passport is taken and her wages are withheld until the debt that is incurred to travel to the destination country is repaid.<sup>7</sup> This is an almost insurmountable task.<sup>8</sup> Those who try to escape are severely beaten, raped, and even killed.<sup>9</sup>

Microcredit has been lauded as a panacea to end poverty among women.<sup>10</sup> This Comment argues that a successful microcredit program would substantially decrease the number of trafficked women. By reducing poverty, women would be less compelled to seek economic opportunities elsewhere, and thus much less likely to fall prey to trafficking. However, this Comment also maintains that the current microcredit system actually perpetuates poverty and increases the likelihood of women being trafficked.

In order for microcredit to be truly successful in maximizing outreach to the impoverished and assisting the women most vulnerable to trafficking, it is essential that Microfinance Institutions (MFIs) provide credit to the poorest women, allow flexibility in loan repayment, educate women about business and savings, address cultural and gender issues that challenge women in these patriarchal societies, and collaborate with local governments to ensure that aid reaches the poorest segment of the population and that corruption among government officials is eliminated.

This Comment proceeds as follows: Section II discusses human trafficking, focusing on the major underlying cause of trafficking in women, poverty; Section III examines what microcredit is and why it has been touted as a solution to eliminating poverty among women; Section IV highlights the limitations of microcredit that perpetuate cycles of poverty and increase women's vulnerability to trafficking; Section V discusses recommendations for how to improve the system by expanding access to credit, increasing flexibility in loan repayment, providing non-financial services, and maintaining an ethos of social outreach, rather than a focus on financial returns.

## II. TRAFFICKING IN WOMEN: A GLOBAL EPIDEMIC

The United Nations Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children defines human trafficking as follows:

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7. ARONOWITZ, *supra* note 6, at 57.

8. See CULLEN-DUPONT, *supra* note 1, at 11 (citing McGill Int'l Law Soc'y, Conference on Human Trafficking in Canada (Mar. 20, 2006)), *summarized at* [http://mils.mcgill.ca/resources/Human\\_Trafficking.pdf](http://mils.mcgill.ca/resources/Human_Trafficking.pdf) (detailing how a trafficked woman's debt can almost never be repaid because she is required to pay for her own living expenses).

9. ARONOWITZ, *supra* note 6, at 58-59.

10. TAZUL ISLAM, MICROCREDIT AND POVERTY ALLEVIATION 2-3 (2007).

the recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others, or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal of organs.<sup>11</sup>

This definition highlights the fact that trafficking is an epidemic that largely affects women and children and often involves sexual exploitation. It also illustrates that trafficking includes forced labor and the removal of organs as forms of exploitation.<sup>12</sup>

Estimates vary widely on the magnitude of trafficking. According to the U.S. Department of State, approximately 800,000 people are trafficked across national borders each year, and millions more are trafficked within their own country's borders.<sup>13</sup> The International Labor Organization (ILO) estimates that more than twelve million people are engaged in forced labor, including sexual exploitation, as a result of trafficking.<sup>14</sup> Others, including NGOs such as Free the Slaves (FTS), approximate that there are twenty-seven million victims of trafficking.<sup>15</sup> It is estimated that more than 80% of trafficking victims are women.<sup>16</sup> 70% of female victims are trafficked into the commercial sex industry.<sup>17</sup>

The U.S. Department of State notes that the nationalities of women that are trafficked are, "as diverse as the world's cultures."<sup>18</sup> One-hundred sixty-one countries are involved in human trafficking either as source, transit, and/or destination countries.<sup>19</sup> Human trafficking affects every

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11. G.A. Res. 55/25, Annex II, Art. 3, U.N. Doc. A/RES/55/25 (Jan. 8, 2001).

12. CULLEN-DUPONT, *supra* note 1, at 9.

13. See U.S. DEP'T OF STATE, TRAFFICKING IN PERSONS REPORT 7 (2008), available at <http://www.state.gov/g/tip/rls/tiprpt/2008/> (discussing the rates of human trafficking internationally).

14. See U.S. DEP'T OF STATE, TRAFFICKING IN PERSONS REPORT 8 (2009), available at <http://www.state.gov/g/tip/rls/tiprpt/2009/> (stating that at least 12.3 million adults and children are engaged in forced labor and commercial sexual servitude).

15. See, e.g., *What's the Story: Modern Slavery*, FREE THE SLAVES, <http://www.freetheslaves.net/NETCOMMUNITY/Page.aspx?pid=375&srcid=183> (last visited Oct. 7, 2010) (reporting 27 million victims of human trafficking).

16. See Haynes, *supra* note 4, at 342 (illustrating how human trafficking disproportionately affects women).

17. U.S. DEP'T OF JUSTICE, ASSESSMENT OF U.S. GOVERNMENT ACTIVITIES TO COMBAT TRAFFICKING IN PERSONS 10 (2004).

18. U.S. DEP'T OF STATE, *supra* note 13, at 8.

19. See U.N. Office on Drugs & Crime (UNODC), *Trafficking in Persons: Global Patterns* 17 (April 2006) (displaying a map reporting incidences of human trafficking).

continent and every type of economy.<sup>20</sup> However, the origin countries with a “very high” rate of human trafficking are Albania, Belarus, Bulgaria, China, Lithuania, Moldova, Nigeria, Romania, Russia, Thailand, and Ukraine.<sup>21</sup> These countries have high unemployment, poverty, civil unrest, and unstable political regimes that have left many women destitute and, as a result, high-risk targets for trafficking.<sup>22</sup>

Human trafficking is the third largest international criminal enterprise, behind only drugs and weapons smuggling.<sup>23</sup> The United Nations estimates that the total market value of illicit human trafficking is \$32 billion.<sup>24</sup> Approximately \$10 billion is derived from the initial “sale” of the individual, and the rest represents the estimated profits from the activities or goods produced by the victims.<sup>25</sup>

#### A. *The “typical” trafficking situation*

The women who are most vulnerable to trafficking are largely from poor, rural countries.<sup>26</sup> Traffickers send recruiters to villages and towns to lure financially insolvent women into accepting seemingly legitimate employment, modeling, or matchmaking opportunities abroad.<sup>27</sup> The Internet is an effective tool for attracting women to foreign cities with false promises of employment and a better life, exacerbating this global epidemic.<sup>28</sup>

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20. *Id.*

21. See CULLEN-DUPONT, *supra* note 1, at 23 (discussing the countries of origin of human trafficking).

22. See *generally id.* at 23-24 (citing poverty and gender inequality as common “push factors” evident in the countries in which trafficking originates).

23. Hanh Diep, *We Pay -- The Economic Manipulation of International and Domestic Laws to Sustain Sex Trafficking*, 2 LOY. U. CHI. INT’L L. REV. 309, 317 (2005).

24. *UN and Partners Launching Initiative to End ‘Modern Slavery’ of Human Trafficking*, UN NEWS CENTRE, Mar. 26, 2007, <http://www.un.org/apps/news/story.asp?NewsID=22009&Cr=slave&Cr1=&Kw1=Initiative&Kw2=&Kw3=>.

25. *Id.*

26. NOELEEN HEYZER, UNIFEM, *COMBATING TRAFFICKING IN WOMEN AND CHILDREN: A GENDER AND HUMAN RIGHTS FRAMEWORK* 5 (2002), *available at* [http://www.childtrafficking.org/pdf/user/unifem\\_gender\\_and\\_human\\_rights\\_framework.pdf](http://www.childtrafficking.org/pdf/user/unifem_gender_and_human_rights_framework.pdf).

27. See AMY O’NEILL RICHARD, *CTR. FOR THE STUDY OF INTELLIGENCE, INTERNATIONAL TRAFFICKING IN WOMEN TO THE UNITED STATES: A CONTEMPORARY MANIFESTATION OF SLAVERY AND ORGANIZED CRIME* 5 (2000), *available at* <https://www.cia.gov/library/center-for-the-study-of-intelligence/csi-publications/books-and-monographs/trafficking.pdf> (focusing on how women are duped into a trafficking situation by recruiters who set up seemingly legitimate employment opportunities that turn into trafficking situations).

28. See DONNA HUGHES, *PIMPS AND PREDATORS ON THE INTERNET, GLOBALIZING THE SEXUAL EXPLOITATION OF WOMEN AND CHILDREN passim* (1999), *available at* <http://www.uri.edu/artsci/wms/hughes/pprep.pdf> (showing how the Internet has exacerbated

In most cases, recruiters front the money to pay for travel documents and transportation for these seemingly legitimate employment opportunities.<sup>29</sup> However, once travel begins, the trafficking arrangement is initiated. The victim's passport is taken and she is "immediately in the control of the trafficker."<sup>30</sup> During the transit, the trafficker continues to assert control over the victim through either violence or a "subtle process of degradation and subjugation."<sup>31</sup>

Upon reaching the destination country, the victim's wages are withheld until the debt that was incurred to travel to the destination country is repaid.<sup>32</sup> Paying off one's debt bondage is almost an impossible task. It is estimated that a prostituted woman would have to service between 500 and 700 men just to pay her travel debt.<sup>33</sup> According to the U.S. Department of State Trafficking in Persons Report, "the [total] debt can never be repaid because the costs for food, rent, medicines and condoms are added every day."<sup>34</sup>

In addition to debt bondage, women are prevented from escaping by security guards, and are subjected to physical, mental, and sexual abuse.<sup>35</sup> Women who try to escape or cooperate with police are often met with severe violence.<sup>36</sup> Studies have found that between one-quarter and one-half of trafficked women seeking assistance from organizations that assist migrants have been severely beaten and raped by their traffickers.<sup>37</sup>

#### B. *Poverty is the major cause of trafficking in women*

The causes of trafficking in women largely stem from poverty.<sup>38</sup> The

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the problem of trafficking of women).

29. O'NEILL RICHARD, *supra* note 27, at 5.

30. KEVIN BALES, UNDERSTANDING GLOBAL SLAVERY 145 (2005).

31. *Id.*

32. See ARONOWITZ, *supra* note 6, at 57 (discussing how the victim of a trafficking situation has to repay their debt to travel to the destination country).

33. CULLEN-DUPONT, *supra* note 1, at 11 (citing McGill Int'l Law Soc'y, Conference on Human Trafficking in Canada (Mar. 20, 2006), *summarized at* [http://mils.mcgill.ca/resources/Human\\_Trafficking.pdf](http://mils.mcgill.ca/resources/Human_Trafficking.pdf)).

34. U.S. DEP'T OF STATE, TRAFFICKING IN PERSONS REPORT 26 (2007), *available at* <http://www.state.gov/g/tip/rls/tiprpt/2007/>.

35. O'NEILL RICHARD, *supra* note 27, at 5.

36. ARONOWITZ, *supra* note 6, at 58 (citing JANICE C. RAYMOND & DONNA M. HUGHES, COAL. AGAINST TRAFFICKING IN WOMEN, SEX TRAFFICKING OF WOMEN IN THE UNITED STATES (2001)), *available at* [http://www.uri.edu/artsci/wms/hughes/sex\\_traff\\_us.pdf](http://www.uri.edu/artsci/wms/hughes/sex_traff_us.pdf) (documenting the pervasiveness of violence in sex trafficking).

37. *Id.*

38. See CULLEN-DUPONT, *supra* note 1, at 23 (discussing the underlying causes of trafficking, citing poverty as the main cause); see also SHELDON ZHANG, SMUGGLING AND TRAFFICKING IN HUMAN BEINGS: ALL ROADS LEAD TO AMERICA 9 (2007) ("Poverty is probably the most cited factor in explaining transnational migration.").

majority of the world's poor are women. Of the 1.3 billion people in poverty, 70% are women.<sup>39</sup> Women perform two-thirds of the world's work, but only earn 10% of the income and own 1% of the property.<sup>40</sup>

Furthermore, as developing economies globalize, many women are being displaced from the workforce.<sup>41</sup> When the formerly communist countries of Eastern Europe and Russia shifted to a market economy, women's employment fell by as much as 40%.<sup>42</sup> Women looked for other work and became easy targets for traffickers.<sup>43</sup> As a result, two-thirds of the 500,000 victims of the sex trade in the European Union are from the Eastern European countries.<sup>44</sup>

Moreover, most poor women are uneducated, which means that they have limited access to the labor market and are the first to lose their jobs in an economic downturn. The United Nations Children's Fund (UNICEF) estimates that in 2008 over 100 million children of primary school age were out of school and 52% of them were girls.<sup>45</sup> Rural girls face even more barriers to receiving an education due to traditional gender norms that discourage girls from attending school.<sup>46</sup> Because women have high illiteracy rates and therefore fewer skills, "the cycle of poverty is perpetuated."<sup>47</sup> Women who try to wrestle free from this cycle by seeking economic opportunities elsewhere have a high risk of being trafficked.<sup>48</sup>

Additionally, in many developing countries, discriminatory laws and practices that tie women's legal, economic, and property rights to men exacerbate the problem of women's poverty.<sup>49</sup> For example, in some cultures, new widows must follow strict mourning practices, including a

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39. Sylvia Chant, *The 'Feminisation of Poverty' and the 'Feminisation' of Anti-Poverty Programmes: Room for Revision?*, 44 J. OF DEV. STUD. 165, 166-67 (2008).

40. *Gender Equality*, UNICEF, available at [http://www.unicef.org/gender/index\\_bigpicture.html](http://www.unicef.org/gender/index_bigpicture.html) (last updated Aug. 25, 2004).

41. See Nilanjana Ray, *Looking at Trafficking Through a New Lens*, 12 CARDOZO J.L. & GENDER 909, 925-26 (2005-06) (discussing the impact that the shift from an agricultural society to a market economy has increased the rates of unemployment and poverty among women).

42. *Id.*

43. *Id.*

44. Diane Fahey, *Can Tax Policy Stop Human Trafficking*, 40 GEO. J. INT'L L. 345, 352 (2009).

45. UNICEF, PROGRESS FOR CHILDREN 18 (2010), available at [http://www.unicef.org/publications/files/Progress\\_for\\_Children-No.9\\_EN\\_081710.pdf](http://www.unicef.org/publications/files/Progress_for_Children-No.9_EN_081710.pdf).

46. Fahey, *supra* note 44, at 353; see also UNICEF, *supra* note 45, at 18 ("86% of urban children attend primary school, compared to only 72% of rural children.").

47. *Id.* at 354.

48. *Id.*

49. See *Democracy and Global Affairs, Gender Imbalance in Human Trafficking*, U.S. DEP'T OF STATE (June 15, 2009), <http://www.state.gov/documents/organization/126792.pdf> (noting that vulnerabilities to trafficking result from economic, political, and developmental processes that can leave women dependent on men).

month of isolation.<sup>50</sup> During this time of isolation, inheritance laws allow the relatives of a deceased man to confiscate the man's property from the widow and her children.<sup>51</sup> In many cases, the widow may not withdraw money from her bank account or take a job during this time.<sup>52</sup> When the woman is left in extreme poverty with children to take care of, she is willing to accept almost any economic opportunity, increasing the chances that she will become a victim of trafficking.<sup>53</sup>

Finally, women living in poverty are often made more vulnerable to trafficking by their own country's local government.<sup>54</sup> Some governments have refused to fight trafficking or have even encouraged it because the local community can profit economically from the trafficking.<sup>55</sup> Traffickers spend money in the community where they hold their victims, injecting capital into local businesses and infusing the local economy.<sup>56</sup> For example, a United Nations study examining the trafficking of Filipinos to Malaysia found that senior police officers that cooperated with the traffickers were given financial incentives and free access to the sexual services of the trafficked women.<sup>57</sup> Corruption is an important component of trafficking operations and continues to exacerbate the trafficking epidemic.

### III. WHAT IS MICROCREDIT AND HOW CAN IT ALLEVIATE POVERTY AND DETER TRAFFICKING IN WOMEN?

Microcredit has been recognized as a "financial instrument and a tool of poverty reduction."<sup>58</sup> If microcredit can succeed in providing poor

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50. *See id.* (discussing the disproportionate numbers of females forced into the sex trade, as opposed to males).

51. *Id.*

52. *Id.*

53. *See* CULLEN-DUPONT, *supra* note 1, at 24 (discussing how inheritance laws limit a widow's opportunities to survive economically and increase the chance that she will be desperate to take on any employment opportunity available such as entering into a trafficking situation).

54. *See* Fahey, *supra* note 44, at 347 (citing government corruption as the lead cause in human trafficking).

55. *Id.* at 354.

56. *See* Kevin Bales, *International Labor Standards: Quality of Information and Measures of Progress in Combating Forced Labor*, 24 COMP. LAB. L. & POL'Y J. 321, 330 (2003) (explaining that government corruption is a significant factor contributing to the high rates of trafficking in women).

57. ARONOWITZ, *supra* note 6, at 62 (citing Wong and Saat, *Coalition Against Trafficking in Human Beings in the Philippines: Country Report on Malaysia/Sabah*, Universiti Kebangsaan Malaysia Bangi (2002) (unpublished report submitted to the United Nations Interregional Crime and Justice Research Institute)).

58. Sana Khan, *Poverty Reduction Efforts: Does Microcredit Help?* SAIS REV. INT'L AFF 147 (Summer-Fall 2009).

women with enough financial stability that they are not burdened to seek a better life elsewhere, it would be instrumental in decreasing rates of trafficking in women. However, it is argued in this Comment that the current microcredit system perpetuates poverty and increases women's susceptibility to trafficking. Before discussing the limitations of microcredit, providing a historical overview of the development of microcredit will be helpful to gain a more complete picture of what microcredit is and what it does (and does not do) for alleviating poverty and instances of trafficking in women.

*A. What is microcredit?*

Microcredit is defined as the extension of small, short-term loans to the very poor who lack the traditional physical collateral that large institutional lenders typically require.<sup>59</sup> The United Nations Capital Development Fund (UNCDF) states that its goal in extending microcredit is "to create income and employment in poor communities through development of local microenterprises and, in the process, increase the financial well-being of borrowers, their families, and the community at large."<sup>60</sup>

Typical microcredit activities include food production and sale, handicraft production, repair services, and making clothes.<sup>61</sup> Instead of relying on local moneylenders who often charge between 100 to 200% interest on loans,<sup>62</sup> poor rural families can use microcredit to meet capital expenditures, including the purchasing of bullocks, carts, agricultural tools, and other equipment necessary to operate their businesses.<sup>63</sup>

*B. The history of microcredit*

Professor Muhammad Yunus is often cited as the pioneer of

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59. See *Documents and Reports, So, What is "Microcredit"??*, GLOBAL DEV. RES. CENTER, <http://www.gdrc.org/icm/what-is-ms.html> (last visited Dec. 13, 2009) (discussing the basic structure and function of microcredit).

60. U.N. CAPITAL DEV. FUND (UNCDF), MICROSTART: A GUIDE FOR PLANNING, STARTING AND MANAGING A MICROFINANCE PROGRAMME 4-10 (1997), available at <http://www.uncdf.org/english/microfinance/uploads/thematic/MicroStartGuide-1997.pdf>.

61. See UNITED NATIONS CHILDREN'S FUND (UNICEF), GIVE US CREDIT 6, (1997), available at <http://www.unicef.org/credit/credit.pdf> (discussing the typical types of business that microloans fund).

62. Aminur Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh: A Village Study of Grameen Bank Lending* (Ph.D. dissertation, University of Manitoba) (1998) at 172.

63. See Jamil Chowdhury, *Reintegration of Internally Displaced People (IDPS): The Need for Micro-Credit*, 19 REFUGEE SURV. Q., No. 2, 2000 at 201 (stating that the microloans are often used to purchase equipment to operate their business).

microcredit.<sup>64</sup> Yunus started the Grameen Bank in Bangladesh in 1976 with a \$30 loan to a group of forty-two basket weavers.<sup>65</sup> Grameen currently has disbursed more than \$5 billion in credit to more than 5.3 million clients in more than 57,790 of Bangladesh's 68,000 villages.<sup>66</sup> Women comprise 97% of Grameen's borrowers.<sup>67</sup> Grameen reports high loan repayment rates, averaging between 95-98%.<sup>68</sup>

The Grameen system is a group-based lending model in which borrowers organize themselves into groups of five. The group receives one loan and it must decide which member will receive the loan first.<sup>69</sup> The average loan is \$388 and interest rates are approximately 20%.<sup>70</sup> The individual who receives the loan is responsible for loan repayments but the group works together to make sure that all loans are repaid on time so that the other group members will be able to receive credit in the future.<sup>71</sup>

The Grameen system requires rigorous field supervision and weekly repayment schedules.<sup>72</sup> The group members must meet every week to make interest and loan payments and to review each other's business plans. When the loan is repaid, another member is able to borrow. Although the bank monitors the group closely, the incentive structure of the microloan also encourages peer monitoring.<sup>73</sup> In sum, "the physical collateral requirement is replaced by the peer group's pressure for the borrower to repay."<sup>74</sup> This social collateral has been successful in ensuring that loans are repaid on time.<sup>75</sup> However, as will be discussed in a later Section, these high repayment statistics mask the immense pressure that is placed on

64. SAMIRENDRA NATH DHAR, MICRO-FINANCE FOR WOMEN, 16 (2005).

65. See ISLAM, *supra* note 10, at 82-83 (discussing the history of the Grameen system).

66. *Id.*

67. *Introduction*, GRAMEEN BANK, [http://www.grameen-info.org/index.php?option=com\\_content&task=view&id=16&Itemid=112](http://www.grameen-info.org/index.php?option=com_content&task=view&id=16&Itemid=112) (last visited Oct. 7, 2010).

68. *Microfinance Basics*, GRAMEEN BANK, <http://www.grameenfoundation.org/what-we-do/microfinance/microfinance-basics> (last visited Oct. 7, 2010).

69. See Lisa Avery, *Microcredit Extension in the Wake of Conflict: Rebuilding the Lives and Livelihoods of Women and Children Affected by War*, 12 GEO. J. ON POVERTY L. & POL'Y 205, 221 (2005) (discussing the structure of the Grameen system).

70. *Grameen Bank at a Glance*, GRAMEEN BANK, [http://www.grameen-info.org/index.php?option=com\\_content&task=view&id=26&Itemid=175](http://www.grameen-info.org/index.php?option=com_content&task=view&id=26&Itemid=175) (last visited Oct. 12, 2010).

71. *What is Microfinance, Why Is Microfinance Successful?*, WOKAI, <http://www.wokai.org/microfinance> (last visited Oct. 7, 2010).

72. See Chowdhury, *supra* note 63, at 201 (examining the structure of the Grameen system and the multitude of requirements that must be met to secure the loan, including weekly meetings and repayments).

73. Alexandra Bernasek, *Banking on Social Change: Grameen Bank Lending to Women*, 16 INT'L J. POL. CULTURE, & SOC'Y 369, 372 (2003).

74. Avery, *supra* note 69, at 222.

75. Bernasek, *supra* note 73, at 372.

borrowers to make loan repayments. Many borrowers are pushed to take out additional loans from local lenders at high interest rates to meet the initial payments on the microloan.<sup>76</sup> They also seek economic opportunities elsewhere and, as a result, have a high risk of being lured into seemingly legitimate employment positions that operate as a guise for trafficking.<sup>77</sup>

*C. The development of microcredit since Grameen Bank*

Since the inception of the Grameen Bank, both the United States and the international community have responded to the “success” of the Grameen Bank microcredit system by funding their own Microfinance Institutions (MFIs) with the intention of decreasing poverty among women. The United States has funded a plethora of international microcredit programs through the U.S. Agency for International Development (USAID). USAID is the world's leading donor for microcredit programs, providing over \$259 million in microloans in sixty-nine countries.<sup>78</sup> USAID reports that many of these microloans are based upon a group-lending model similar to the Grameen system and that its overall repayment rate exceeds 95%.<sup>79</sup>

One of the largest microcredit group-lending programs funded by USAID is the Foundation for International Community Assistance (FINCA).<sup>80</sup> FINCA, which started in 1985 with 200 borrowers in Costa Rica, has disbursed over \$136 million to more than 220,000 clients in twenty countries in Africa, Asia, and North and South America by 2002.<sup>81</sup> FINCA is structured much like the Grameen system, offering microloans to groups of ten to fifty people, mostly women, in which all members assume the personal responsibility of guaranteeing the loans of each of its members, and reports a 97% repayment rate.<sup>82</sup>

76. See Rahman, *supra* note 62, at 5 (noting the high interest rates charged by local moneylenders).

77. CULLEN-DU PONT, *supra* note 1, at 25.

78. USAID, MICROENTERPRISE RESULTS REPORTING, ANNUAL REPORT TO CONGRESS, FISCAL YEAR 2008 (2009), available at [http://www.microlinks.org/ev\\_en.php?ID=40534\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=40534_201&ID2=DO_TOPIC).

79. See e.g., Press Release, USAID, USAID Program In Iraq Tops \$150 Million in Microloans (Mar. 25 2008), available at <http://www.usaid.gov/press/releases/2008/pr080325.html> (announcing the disbursement of microloans to small groups of people in Iraq and noting the high repayment rate).

80. See *FINCA's History*, FOUND. FOR INT'L COMMUNITY ASSISTANCE (FINCA), [http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2604291/k.99B5/FINCA's\\_History.htm](http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2604291/k.99B5/FINCA's_History.htm) (last visited Oct. 7, 2010) (describing why FINCA was created and how it has evolved over time).

81. *Id.*

82. See *Frequently Asked Questions*, FINCA,

*D. The success of microcredit*

The Microcredit Summit Campaign, a global coalition of microlenders, estimates that as of 2006, over 3,100 MFIs were providing financial services to more than 113 million people worldwide.<sup>83</sup> Over eighty-one million of these clients lived on less than \$1 a day when they took their first loan.<sup>84</sup> Of these poorest clients, 84% were women.<sup>85</sup> Women have been successful in paying back microloans, with most MFIs achieving loan repayment rates upwards of 95%.<sup>86</sup>

Studies also demonstrate that microcredit programs have increased poor women's economic opportunities.<sup>87</sup> Some argue that microcredit has empowered women by "putting capital in their hands and allowing them to earn an independent income and contribute financially to their households and communities."<sup>88</sup> In addition, borrowers' children, particularly female children, have "higher rates of enrollment in school, and borrowers tend to be more attentive to the medical needs of their children."<sup>89</sup>

Microcredit has been lauded as a tool for eradicating poverty.<sup>90</sup> In 2000, the U.S. passed legislation implementing microcredit programs to prevent and deter trafficking in women.<sup>91</sup> The United Nations declared 2005 to be the "International Year of Microcredit," in an effort to help poor countries reach economic sustainability through microcredit.<sup>92</sup> In 2006, Dr. Muhammad Yunus, the founder of the Grameen Bank, won the Nobel Peace Prize.<sup>93</sup> This recognition has "helped microfinance emerge at the forefront of a number of international campaigns designed to alleviate

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[http://www.finca.org/site/c.6fIGIXMFJnJ0H/b.6088223/k.802B/Frequently\\_Asked\\_Questions.htm#vbank](http://www.finca.org/site/c.6fIGIXMFJnJ0H/b.6088223/k.802B/Frequently_Asked_Questions.htm#vbank) (last visited Oct. 7, 2010) (discussing microcredit generally and specifically how the Village Banking system that FINCA has created functions).

83. SAM DALEY-HARRIS, MICROCREDIT SUMMIT CAMPAIGN 18 (2006).

84. *Id.*

85. *Id.*

86. *About Microfinance*, DIGNITY FUND, [http://www.dignityfund.com/about\\_mf.html](http://www.dignityfund.com/about_mf.html) (last visited Nov. 7, 2010).

87. *See generally* UNICEF, *supra* note 61, at 3 ("[Microcredit] is a way of improving the earning capacity and therefore the standard of living of the poor.").

88. SUSY CHESTON & LISA KUHN, UNIFEM, EMPOWERING WOMEN THROUGH MICROFINANCE 14, *available at* [www.microcreditsummit.org/papers/empowerment.pdf](http://www.microcreditsummit.org/papers/empowerment.pdf).

89. *See Avery, supra* note 69, at 209 (citing UNICEF, *supra* note 61, at 6).

90. Khan, *supra* note 58, at 148.

91. Victims of Trafficking and Violence Protection Act of 2000 §106, 22 U.S.C. § 7104 (2006). "The President shall establish and carry out international initiatives to enhance economic opportunity for potential victims of trafficking as a method to deter trafficking. Such initiatives may include (1) microcredit lending programs, training in business development, skills training, and job counseling. . . ." *Id.*

92. Khan, *supra* note 58, at 148.

93. *Id.*

poverty.”<sup>94</sup> However, as will be discussed in the next Section, there is an ongoing debate as to whether microcredit reaches the poorest of the poor and whether it is a “genuinely effective tool for poverty reduction.”<sup>95</sup>

#### IV. THE LIMITATIONS OF MICROCREDIT IN DECREASING THE RATES OF TRAFFICKING IN WOMEN

In spite of the impressive statistics on the number of women who have received microloans and the high rate of loan repayment, the literature suggests that microcredit has a limited impact on poverty alleviation.<sup>96</sup> Furthermore, the rates of human trafficking remain exceedingly high.<sup>97</sup> Therefore, the shortcomings of microcredit must be identified and reforms made to the system in order for it to serve as an effective economic means of deterring trafficking in women.

This Section will highlight the current limitations of microcredit. First, microloans fail to reach the poorest women who are at the highest risk of entering into a trafficking situation.<sup>98</sup> Second, the rigid microloan structure requires immediate repayment at high interest rates,<sup>99</sup> not only perpetuating the cycle of poverty, but also increasing the likelihood that women will seek seemingly legitimate economic opportunities outside of their respective home countries to make loan repayments. Finally, there are cultural and gender issues that must be addressed for microcredit to be successful in decreasing trafficking, specifically the fact that many women lose control of how the loan is used to male members of the household but still retain liability for repayment.<sup>100</sup> Women borrowers have also experienced verbal and physical abuse for their involvement with microloans.<sup>101</sup>

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94. *Id.*

95. *Id.*

96. *Id.* at 147.

97. Elizabeth M. Wheaton et al., *Economics of Human Trafficking*, INT'L MIGRATION, Aug. 2010, at 114, 114 (“Within the next 10 years, crime experts expect human trafficking to surpass drug and arms trafficking in its incidence, cost to human wellbeing, and profitability to criminals.”).

98. Celia Taylor, *Microcredit as Model: A Critique of State/NGO Relations*, 29 SYRACUSE J. INT'L L. & COM. 303, 327 (2002).

99. Avery, *supra* note 69, at 229.

100. Anne Marie Goetz & Rina Sen Gupta, *Who Takes the Credit? Gender, Power and Control Over Loan Use in Rural Credit Programs in Bangladesh*, 24 WORLD DEV. 45, 49 (1996).

101. Rahman, *supra* note 62, at 158.

A. *Microloans do not reach the poorest women most vulnerable to trafficking*

According to the 2008 Microfinance India State of the Sector Report (MISS), poverty audits reveal that, “in five out of eight [MFIs], the proportion of non-poor clients’ [(income more than \$1 per day)] was more than poor [clients’ (income less than \$1 per day)], with coverage of non-poor ranging from 42 to 88[%] of the clientele.”<sup>102</sup> In fact, MFIs seem to be excluding the poorest segment and focusing mostly on the non-poor group.<sup>103</sup> This is likely due to the fact that many MFIs rely on external donors for funds and are pressured to produce instantaneous results.<sup>104</sup>

Additionally, MFIs fail to reach the poorest segment of the population because the rural poor are often dispersed geographically, making it difficult to form groups.<sup>105</sup> This group often requires smaller deposits and loans, in a “context where poor physical infrastructure and increased lending risk due to poorly diversified livelihoods and economics impose higher costs on providers.”<sup>106</sup> These factors make poor, rural women less ideal candidates for microloans than their slightly wealthier counterparts.<sup>107</sup>

Furthermore, many MFIs select clients based on existing cash flows. The cash flow combined with the joint liability of the group-lending model, “acts as soft collateral against unwilling default.”<sup>108</sup> As a result, in India, requiring an existing cash flow excludes 36% of Indians who live on less than \$1 a day.<sup>109</sup> This statistic indicates that the extremely poor women who have the highest risk of becoming victims of trafficking are not being served by microcredit.

Some scholars argue that it is simply impossible to provide microcredit to the poorest of the poor, because it would not be financially sustainable for the MFIs.<sup>110</sup> MFIs need to maintain a balance between outreach and sustainability, that is, the “balance between its social mission

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102. Gautam Aggarwal & Saikat Podder, *Microfinance: Treading a Fine Line Between Financial and Social Objectives*, WALL ST. J., Dec. 16, 2009, available at <http://online.wsj.com/article/SB126093830654793317.html>.

103. *Id.*

104. Taylor, *supra* note 98, at 328.

105. *Id.* at 329.

106. Susan Johnson & Namrata Sharma, ‘Institutionalizing Suspicion’: *The Management and Governance Challenge in User-Owned Microfinance Groups*, in WHAT’S WRONG WITH MICROFINANCE?, 61, 63 (Thomas Dichter & Malcolm Harper eds., 2007).

107. *Id.* at 61, 63.

108. Aggarwal & Podder, *supra* note 102.

109. *Id.*

110. See ISLAM, *supra* note 10, at 159 (“In considering the sustainability of the poverty alleviation impact of the GB microfinance program[s] . . . it can safely be said that in terms of consumption smoothing its performance is good but in terms of significant poverty alleviation, the performance is not encouraging.”).

of poverty alleviation and its commercial strategy of sustainability.”<sup>111</sup> There has been an increase in the number of profit-oriented financial institutions invested in MFIs, including Citigroup, Barclays and JP Morgan.<sup>112</sup> Commentators assert that this has “further led to dilution of social objectives of MFIs, transforming them primarily into commercial enterprises.”<sup>113</sup> Fixating on financial sustainability has pushed MFIs to focus on “easy-to-serve” and “relatively better-off populations”<sup>114</sup> rather than the rural poor, who are the most in need of financial assistance and also the most susceptible to trafficking. Carlos Labarthe, one of the CEOs of Compartamos, a Mexican microfinance institution that generates a profit of \$80 million a year by serving one million women with microcredit at 90% interest rates, summed up the current view of many MFIs in his statement that microcredit is, “in a way creating wealth, more than wiping out of poverty. Not bringing up the destitute.”<sup>115</sup>

This concentration on financial rather than social returns<sup>116</sup> is troubling, and suggests that many MFIs will not reach out to the poorest segments of society and offer them flexible financial services because it is not profitable. While it may be impossible for MFIs to reach all poor women, in order for microcredit to be effective in curtailing the rates of trafficking, the focus needs to be on maximizing outreach to the abject poor rather than succeeding as a traditional financial institution.<sup>117</sup>

*B. Pressure to make immediate loan repayments at high interest rates perpetuates poverty and can increase rates of trafficking*

Women who are successful in obtaining a microloan must then grapple with the tremendous pressure of making loan payments, particularly under the group-lending structure where another group member’s future credit hinges on the success of the member currently

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111. *Id.*

112. ANANYA ROY, POVERTY CAPITAL: MICROFINANCE AND THE MAKING OF DEVELOPMENT 31 (2010).

113. Aggarwal & Podder, *supra* note 102.

114. Johnson & Sharma, *supra* note 106, at 70.

115. ROY, *supra* note 112, at 27 (citing Connie Bruck, *Millions for Millions*, THE NEW YORKER, Oct. 30 2006, at 62, available at [www.newyorker.com/archive/2006/10/30/061030fa\\_fact1](http://www.newyorker.com/archive/2006/10/30/061030fa_fact1)).

116. ROY, *supra* note 112, at 26.

117. See ISLAM, *supra* note 10, at 162-63 (“In considering the trade-off between poverty alleviation and sustainability, it is emphasized that as the GB is the product of some desperate economic situations . . . it is more of a poverty alleviation organization than just a traditional commercial financial institution. The main objective of poverty alleviation is the *end*, to which the GB should try to reach with its *means* of a sustainable financial structure . . .”).

borrowing.<sup>118</sup> The fact that many MFIs require immediate loan repayment at interest rates upwards of 20%<sup>119</sup> increases the pressure that these women face. As a result, many borrow money from local moneylenders or seek additional economic prospects to ensure that they can make timely payments.<sup>120</sup> Scholars argue that microcredit programs that are based on group lending, “promote[] unprecedented levels of indebtedness [and] that the low default figures mask unprecedented misery.”<sup>121</sup> The rigid microloan structure places women further in debt and increases their susceptibility to trafficking.

For most microenterprises, it takes about three months for income to be earned from the microloan.<sup>122</sup> However, the weekly loan-repayment requirement forces borrowers to invest in projects that are expected to generate immediate income.<sup>123</sup> For example, a borrower is forced to spend more money on a dairy cow, which can produce milk from the first week, rather than a calf, which is a cheaper and better long-term investment but will not yield immediate results.<sup>124</sup>

Scholars have also found that many women who receive microloans initially use the loan for household consumption, including food and medicine, instead of an activity that will generate immediate profit.<sup>125</sup> One study reported that 78% of microloans approved for specific projects were actually used for other economic activities or to meet household needs.<sup>126</sup> This results in women having to borrow from local moneylenders in order to meet the initial repayments. Another study found that 57% of weekly repayments were paid from sources other than investment profits, usually from loans from moneylenders or family members.<sup>127</sup> Relying on local lenders that charge exorbitant interest rates places women further in debt<sup>128</sup>

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118. Rahman, *supra* note 62, at 10.

119. ISLAM, *supra* note 10, at 152.

120. Jude Fernando, Nongovernmental Organizations, Micro-credit, and Empowerment of Women, 554 ANNALS 150, 171 (1997).

121. Taylor, *supra* note 98, at 329 (quoting Lawrence Solomon, *Micro-Credit's Dark Underside: Problems of Bangladesh's Grameen Bank*, WORLD PRESS REV., Aug. 1998, at 33).

122. See Avery, *supra* note 69, at 229 (articulating the limitations of the weekly loan repayment system for microloans).

123. Taylor, *supra* note 98, at 329.

124. See Fernando, *supra* note 120, at 172 (1997) (discussing the limitations of microcredit, including the loan repayments that put pressure on women to make weekly repayments, often when they start their business and there is not much capital).

125. S.M. Rahman, *A Practitioner's View of the Challenges Facing NGO-Based Microfinance in Bangladesh*, in WHAT'S WRONG WITH MICROFINANCE?, 193, 195 (Thomas Dichter and Malcolm Harper eds., 2007).

126. Rahman, *supra* note 62, at 182.

127. *Id.* at 183.

128. *Id.* at 5.

and makes them more vulnerable to trafficking.<sup>129</sup>

There are a plethora of personal accounts of female microloan clients discussing the burden to make the weekly loan repayments. One client stated that women are expected to work day and night for the “privilege of receiving small sums of credit,” and that the anxiety to repay under those conditions “drove women back to the more lucrative, albeit exploitative, sex industry.”<sup>130</sup> Women consider the lack of flexibility in terms of loan repayment to be a heavy burden. One woman who received a microloan explained that:

We are constantly under pressure to think of ways in which we can raise money for weekly repayment requirements. Often we have to sell the few home-grown vegetables that we earlier used for our own consumption, forgo buying books for our children and medical treatment. Even if we try to give priority to these needs, our group members will make sure that we sell whatever we have in order to make the weekly repayment. . . .<sup>131</sup>

The pressure to make immediate loan repayments is a serious limitation of microcredit that pushes many women to search for alternative sources of cash.<sup>132</sup> Borrowers, especially in the group-lending situation, feel compelled to sell their own food and neglect their own family’s needs so that they do not fall behind on paying back the microloan. These women are desperate for an opportunity to receive instant access to cash, making them easy targets for traffickers.

### C. Cultural and gender limitations of microcredit

Microloans are distributed in developing countries where gender and cultural norms discourage women from actively participating in the economic sector. As a result, some women who receive microloans lose control of the loan to male members of their household.<sup>133</sup> In one study, conducted by Anne Marie Goetz and Rina Sen Gupta, it was found that a substantial portion of microloans given to women were directly invested by male relatives, while the women retained the liability for repayment.<sup>134</sup> In

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129. *Id.*

130. Avery, *supra* note 69, at 231.

131. Fernando, *supra* note 120, at 174.

132. See Avery, *supra* note 69, at 229 (“Consequently, fledging microenterprise projects often require women to borrow additional funds from unscrupulous moneylenders and traders to pay off outstanding loans.”).

133. See generally Goetz & Gupta, *supra* note 100, at 49 (discussing the amount of control women have over the microloans).

134. See *id.* at 49 (suggesting that in most cases where microloans are given to women they do not retain control over how the loan is used but remain liable for loan repayments).

approximately 63% of the cases studied, the female recipients of the loans had partial, very limited, or no control over how the loan was used.<sup>135</sup> This lack of control over how the loan is invested is problematic for women borrowers. If a particular loan is squandered and yields no profit, the woman is still liable for the loan payments. As a result, the woman is left to internalize the high cost of loaning to men<sup>136</sup> and is forced to pursue outside economic opportunities to ensure that the loan is repaid.

Research also indicates that women have experienced increased domestic violence and physical aggression from males in the household after receiving a microloan.<sup>137</sup> In one study it was found that female borrowers commonly experienced domestic abuse as a result of their involvement with microloans.<sup>138</sup> Among 120 women borrowers, 21 women (18% of the sample) found that there was a decrease in aggression and assault because of their involvement with the Grameen bank, 69 women (57%) saw a rise in verbal aggression, and 16 women (13%) saw a rise in both verbal and physical violence since they received their first loans.<sup>139</sup> Six borrowers encountered violence when they refused to give their loan to the male member of the household.<sup>140</sup>

MFIs need to address these cultural and gender barriers in the communities where they disperse microloans. The notion of women controlling loans subverts the traditional patriarchal hegemony of the household and, without support systems in place, women may lose control of the loan to the males of the house or be met with verbal and physical violence.<sup>141</sup> The combination of poverty and abuse encourages women to seek refuge elsewhere, making them prime targets for traffickers.

## V. RECOMMENDATIONS

There are substantial limitations to the microcredit system that can have the perverse effect of increasing poverty among women and instances of trafficking. This Section will discuss recommendations of how to correct the shortcomings of microcredit in order to create a system that reaches the poorest women, reduces the pressure to make loan repayments,

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135. *Id.*

136. MICHELLE BELLESSA, THE EFFECTS OF MICROLENDING ON WOMEN'S EMPOWERMENT IN BANGLADESH 16, *available at* [http://marriottschool.byu.edu/emp/WPW/pdf/thirdworld/Small\\_Part\\_2.pdf](http://marriottschool.byu.edu/emp/WPW/pdf/thirdworld/Small_Part_2.pdf).

137. Robin Isserles, *Microcredit: The Rhetoric of Empowerment, the Reality of "Development As Usual"*, 31 WOMEN'S STUD. Q. 38, 49 (2003).

138. See Rahman, *supra* note 62, at 158 (arguing in part that violence against women is linked with the receipt of microloans).

139. *Id.*

140. *Id.*

141. *Id.*

gives women more control over the loan, focuses on savings and education rather than just credit, is more sensitive to gender and cultural limitations, and collaborates with the state to maximize poverty reduction, eliminate corruption among government officials, and decrease instances of trafficking in women.

*A. MFIs need to reach the poorest women*

In order to reach the poorest women who are the most vulnerable to trafficking, MFIs need to rigorously target the poorest areas and further target the poorest clients within these local areas.<sup>142</sup> One group that has made strides in providing access to credit is the Bangladesh Rural Advancement Committee (BRAC), which targets the poorest of the poor, mainly female-headed, landless households.<sup>143</sup> To receive membership into BRAC's Specially Targeted Ultra Poor (STUP) group at least three of the following criteria must be met: (1) The household is dependent upon female domestic work or begging; (2) Ownership of less than 10 decimals, or one-tenth of an acre of land; (3) No active adult male members in the household; (4) Children of school-going age have to take paid work; and (5) No productive assets in the household. BRAC provides food aid, employment, healthcare, skills training, compulsory savings, and ultimately microfinance.<sup>144</sup> This program is subsidized and does not recuperate its financial costs.<sup>145</sup> The lack of pressure to repay external donors, which encourages most other MFIs to ignore the poorest of the poor, is one explanation for BRAC's success.<sup>146</sup> MFIs should implement a system similar to BRAC's STUP program and strive to provide financial assistance to the poorest women.

MFIs should also be more flexible to allow for smaller loans to be taken out. For the extremely poor who fear that they will not be able to meet the repayment requirements of a larger loan, a smaller loan would

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142. Anton Simanowitz, *Ensuring Impact: Reaching the Poorest While Building Financially Self-Sufficient Institutions, and Showing Improvement in the Lives of the Poorest Women and their Families*, THE MICROCREDIT SUMMIT CAMPAIGN, 42 (Aug. 16, 2002), <http://www.microcreditsummit.org/papers/ensuringimpact.pdf>.

143. ROY, *supra* note 112, at 114; see also *Economic Development: Targeting Extreme Poverty*, BANGL. RURAL ADVANCEMENT COMMITTEE (BRAC), <http://www.brac.net/content/economic-development-targeting-extreme-poverty> (last visited Oct. 12, 2010) (describing the BRAC programs devoted to reducing poverty in Bangladesh).

144. *Targeting Extreme Poverty: Poverty Targeting*, BRAC, <http://www.brac.net/content/targeting-extreme-poverty-poverty-targeting> (last visited Oct 12, 2010).

145. ROY, *supra* note 112, at 114.

146. *Id.*

provide them with less risk.<sup>147</sup> There should be no floor to the loan amount in order to maximize the number of poor clients that can be reached by microcredit.<sup>148</sup>

Furthermore, in order to assist those most in need of microcredit, the MFIs should try to lower the interest rates on the loans. Although the interest rates offered by MFIs are lower than those offered by local moneylenders, most still exceed 20%.<sup>149</sup> Some strategies for decreasing interest rates include “reducing transaction costs, push[ing] for high growth, high repayments and portfolio turnover.”<sup>150</sup> Lowering interest rates would encourage those that are extremely poor, and thus averse to obtaining loans with high interest rates, to take out microloans. This would result in more customers for MFIs, potentially offsetting the cost of decreasing the interest rates for the microloan. Even if decreased interest rates make MFIs less profitable, it would help them achieve a more important societal goal: alleviating poverty and diminishing the rates of trafficking in women.

*B. MFIs need to be more flexible with loan repayments*

A weekly loan repayment is unrealistic for many borrowers, especially when first starting a business where capital has not yet been generated.<sup>151</sup> Biweekly or monthly repayment options would put much less pressure on women to have to borrow from local lenders, or to seek other economic prospects in order to ensure timely repayment.

MFIs should also be attuned to environmental conditions that may affect loan repayment.<sup>152</sup> For example, in Mali it is very difficult to make loan repayments during the rainy season.<sup>153</sup> Requiring loan repayment during these months has led to a high rate of attrition from microcredit programs.<sup>154</sup> MFIs must be sensitive to these environmental issues, which vary from country to country, so that borrowers are not left to make loan

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147. ISLAM, *supra* note 10, at 162.

148. *Id.*

149. *See id.* at 152 (using the Grameen Bank as a case study and pointing out that effective rates of interest on loans issued by the bank exceed 20%).

150. *Id.* at 166.

151. Avery, *supra* note 69, at 229.

152. *See* ANASTASE NTEZIYAREMYE & BARBARA MKNELLY, FREEDOM FROM HUNGER, RESEARCH PAPER NO. 7: MALI POVERTY OUTREACH STUDY OF THE KAFO JIGINEW AND NYESIGISO CREDIT AND SAVINGS WITH EDUCATION PROGRAMS 62 (2001), available at <http://www.fhtechnical.org/resources/research-reports/mali-poverty-outreach-study-kafo-jiginew-and-ny-sigiso-credit-and-savings> (arguing for flexibility in repayment plans during the rainy season).

153. *Id.*

154. *Id.* at 63.

repayments during a period of time where profits are almost impossible to yield.

The Grameen Bank has implemented a more flexible lending option called “flexi-loan detour,” a way of “exiting the loan highway” and returning several months later when repayment difficulties arise.<sup>155</sup> Unfortunately, this “flexible” system is rife with disincentives for borrowers to actually use this “detour,” particularly given the fact that once a borrower exits the “loan highway” the loan ceiling that she built up over the past years is wiped out.<sup>156</sup> Despite these limitations, it is a positive sign that lenders are becoming aware that more flexibility is needed in order for microcredit to serve the poorest women.

*C. MFIs should create saving systems, not just give credit*

Most MFIs have focused their efforts solely on extending credit to the poor. However, this “credit-alone approach” is not helpful for alleviating poverty, especially among the extremely poor.<sup>157</sup> Commentators have described savings as the “forgotten half” of the MFIs’ involvement in extending microloans in developing countries.<sup>158</sup> Scholars suggest that savings systems may result in the inclusion of the poorest 10-15% of the population, who are risk averse<sup>159</sup> and thus less likely to “experiment with new ideas or invest money in businesses that involve taking risks.”<sup>160</sup>

In contrast to the rigid repayment requirements of microloans and the fact that borrowers must *pay* interest on loans, savings systems offer flexibility and the potential for *earning* interest.<sup>161</sup> Research indicates that poor clients are often able to save significant capital, and that they “value safe and convenient savings facilities.”<sup>162</sup> This access to savings can help the poor “smooth consumption over periods of cyclical or unexpected crisis, thus greatly improving their economic security.”<sup>163</sup> Providing poor women with a safety net to assist them during difficult economic times will decrease their susceptibility to trafficking because they will not be in dire need to have immediate access to capital.

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155. ROY, *supra* note 112, at 110.

156. *Id.* at 118.

157. ISLAM, *supra* note 10, at 153.

158. Paul B. McGuire & John D. Conroy, *The Microfinance Phenomenon*, 7 ASIA-PAC. REV. 90, 97 (2000).

159. ISLAM, *supra* note 10, at 154.

160. Khan, *supra* note 58, at 151.

161. REBECCA M. VONDERLACK & MARK SCHREINER, CTR. FOR SOC. DEV., WOMEN, MICROFINANCE, AND SAVINGS: LESSONS AND PROPOSALS 3 (2001), available at [http://www.microfinance.com/English/Papers/Women\\_Microfinance\\_and\\_Savings.pdf](http://www.microfinance.com/English/Papers/Women_Microfinance_and_Savings.pdf).

162. McGuire & Conroy, *supra* note 158, at 97.

163. ISLAM, *supra* note 10, at 153.

There are both informal and formal types of savings systems that can be implemented in areas where microloans are distributed. Informal savings systems include annual savings clubs, which are organized by religious groups and social clubs, and allow members to make deposits of any amount at each club meeting.<sup>164</sup> These clubs do not give interest on the savings but do provide a means for members to easily save money.<sup>165</sup> Another type of informal saving system is a Rotating Savings and Credit Association (ROSCA), which is a “group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member.”<sup>166</sup> This cycle continues until each member has received a lump sum of the savings from the fund.<sup>167</sup> The advantage of ROSCA is that it “facilitates the availability of a lump sum of money, which allows for higher investment to be made earlier than accumulation of savings.”<sup>168</sup> These types of informal savings are beneficial because they allow individuals to build up savings at low transaction costs.<sup>169</sup> However, there is the potential for abuse in both informal savings models. For example, in the savings club there is the risk that the funds will be embezzled, wiping out all of the savings that members have accrued over time.<sup>170</sup> In a ROSCA, it is possible that an individual who has already received a lump sum from the fund will no longer want to make contributions to the pool.<sup>171</sup> Furthermore, these savings systems do not provide the interest that formal services provide.<sup>172</sup>

Formal savings programs can include banks offering savings accounts with a positive rate of interest, no minimum deposit or balance, and immediate access to withdrawals.<sup>173</sup> There are also MFIs, including *SafeSave*, that offer flexible savings programs to their clients.<sup>174</sup> *SafeSave* hires door-to-door collectors to visit clients daily, and clients can either make a deposit or request to make a withdrawal.<sup>175</sup> This program provides the stability of a formal savings institution and allows members to earn interest on their savings.<sup>176</sup> There are also banks in Ghana and Mexico that

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164. VONDERLACK & SCHREINER, *supra* note 161, at 7.

165. *Id.* at 9.

166. *The Mutuality of Credit: Rotating Savings and Credit Association*, THE GLOBAL DEV. RESEARCH CTR., <http://www.gdrc.org/icm/suppliers/rosca.html>.

167. *Id.*

168. *Id.*

169. VONDERLACK & SCHREINER, *supra* note 161, at 7.

170. *Id.*

171. *Id.* at 9.

172. *Id.*

173. *Id.* at 11-12.

174. *Id.* at 11.

175. *Id.*

176. *Id.*

have formalized the ROSCA system, making members of the group sign contracts that offer financial incentives for regular, fixed deposits.<sup>177</sup> In comparison to the informal ROSCA model, this formal ROSCA system pays interest and provides more stability by requiring all group members to sign a contract that binds them to fulfill specific duties and obligations.<sup>178</sup>

*D. MFIs need to educate women and help them develop business skills*

Empirical studies indicate that microcredit loans coupled with training programs have a higher probability of success, particularly with women.<sup>179</sup> For example, in interviews with women who received loans from Sinapi Aba Trust, most recipients commented that their ability to plan, project profit, and manage money had improved substantially as a result of the training they received from their orientation and Trust Bank meetings.<sup>180</sup>

Asociación para el Desarrollo Microempresarial Colombiano (ADEMCO) is another example of an MFI that offers, “holistic client transformation by combining efficient delivery of financial services with social interventions such as training, leadership development, and development of business and social networks.”<sup>181</sup> ADEMCO has had positive results, finding that training has not only led to more profitable businesses, but has also empowered women.<sup>182</sup> This empowerment is seen in the comments of Gladis Lenis de Gonzales, a shoemaker and ADEMCO client, who remarked: “After having received the training, I have had changes in both my business and my personal life. Intellectually, I feel that my life has been reactivated, because studying, calculating, and analyzing again have made me feel useful. . . .”<sup>183</sup> Therefore, integrating business training with microloan distribution could be beneficial for optimizing business profits, while empowering women at the same time.

In addition to basic business training, women’s education and literacy are important. MFIs have cited illiteracy as “a major stumbling block for their clients.”<sup>184</sup> Although MFIs have largely steered away from implementing literacy programs because they require a significant output of

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177. *Id.* at 12.

178. *Id.*

179. ISLAM, *supra* note 10, at 161.

180. Cheston & Kuhn, *supra* note 88, at 39.

181. ASOCIACIÓN PARA EL DESARROLLO MICROEMPRESARIAL COLOMBIANO (ADEMCO) & WOMEN’S OPPORTUNITY FUND, BUNDLING MICROFINANCE AND BUSINESS DEVELOPMENT SERVICES (BDS): A CASE STUDY FROM ADEMCO IN COLOMBIA 7 (2001), available at [http://www.microlinks.org/ev\\_en.php?ID=7294\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=7294_201&ID2=DO_TOPIC).

182. *See id.* (discussing ADEMCO’s innovative approach to a holistic method which has led to the implementation of a number of empowering community programs).

183. *Id.* at vii.

184. Cheston & Kuhn, *supra* note 88, at 41.

time and resources, there are some inexpensive ways that MFIs can implement literacy training, including providing materials to women in the lending groups to train themselves.<sup>185</sup> The Women's Empowerment Project (WEP) has used this low-cost method of training women and found that the literacy rate of its members rose from 21% to 85% during the first thirty months of the program.<sup>186</sup>

Increased education among women would expand the possible microenterprises available for them to explore. With low levels of skill and knowledge, women often have to create businesses that have low growth potential.<sup>187</sup> Assisting women design more complicated and high growth potential businesses will help reduce poverty long-term and give them financial stability so that they will not feel pressured to seek economic prospects abroad and expose themselves to a potential trafficking situation.<sup>188</sup>

*E. MFIs need to be attuned to cultural and gender issues*

It is also important that MFIs support women who are balancing responsibilities at home with maintaining their businesses. For example, MFIs can hold forums in the lending centers where women can discuss issues such as balancing family life with operating a business. These forums have great potential because these economically empowered women can begin to take steps to address the cultural and legal barriers that limit their social and political power.<sup>189</sup> The few MFIs that have started to implement these forums have found that "women have greater knowledge of their civil and legal rights and are more aware of their position and the choices they can make."<sup>190</sup>

MFIs are also beginning to implement outreach efforts to include husbands in the microloan process. If the husband feels included, he may be more likely to provide the necessary support for his wife so that she can fulfill her multiple roles.<sup>191</sup> Empirical data demonstrates that the "most successful clients of many MFIs are the ones who have the most supportive husbands and that those with more problems often have problems with their

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185. *Id.*

186. *Id.*

187. *See id.* (reporting that illiteracy is a major problem for recipients of micro loans).

188. *See ISLAM, supra* note 10, at 157 (noting that without high growth project support the chances of reducing poverty long-term are "remote").

189. Cheston & Kuhn, *supra* note 88, at 43.

190. *Id.*

191. *See id.* at 42 (pointing out that the most successful recipients of micro loans have supportive husbands while those who struggle the most have, not coincidentally, problems with their spouses).

husbands.”<sup>192</sup> By including the husband in the microloan process, he may be more supportive of his wife’s involvement with microcredit.

Finally, there must be more surveillance over how the loan is utilized to make sure that women are maintaining control over the microloan. Certain safeguards could be put in place, including requiring borrowers to provide detailed accounts of loan use.<sup>193</sup> At the very least, MFIs should require a contract between the woman and the actual user of the loan<sup>194</sup> to protect her from being held liable for failure to make loan repayments.

*F. MFIs should work with local governments to maximize poverty reduction and deter trafficking*

Scholars have found that there is a significant divide between MFIs and the local governments of the countries where the loans are dispersed.<sup>195</sup> As discussed earlier, these local governments have played an important role in perpetuating trafficking because they reap economic profits from traffickers.<sup>196</sup> Therefore, it is crucial that MFIs try to collaborate with local governments to eliminate the corruption, and to work in tandem to meet the goals of alleviating poverty and deterring trafficking. It is unclear how much collaboration is actually feasible between the local government and the MFIs. The fact that MFIs are “outsiders” suggests that they may be viewed as an intrusion rather than an asset to the local community and may disrupt traditional social (especially gender) relations.<sup>197</sup> Furthermore, the economic profits that local governments receive from trafficking may outweigh the benefits that result from partnerships with MFIs. However, collaboration between local governments and MFIs can have a synergistic effect in alleviating poverty and trafficking in women that is worth pursuing in spite of the costs.

For MFIs, working with local governments would help create a more particularized credit program that would be especially sensitive to the cultural, political, religious, and economic issues specific to that country.<sup>198</sup> Furthermore, collaboration could increase women’s empowerment in the

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192. *Id.*

193. Goetz & Gupta, *supra* note 100, at 60.

194. *Id.*

195. *See* Fernando, *supra* note 120, at 160 (discussing the divide between NGOs and local governments).

196. *See* Bales, *supra* note 56, at 330 (noting that, by relegating it to a position of political invisibility, governments may tacitly encourage trafficking because of its positive effects on the local economy).

197. Taylor, *supra* note 98, at 334.

198. *See id.* at 335 (highlighting the benefits of collaboration between local governments and NGOs).

community. Many of these countries are hierarchical and patriarchal.<sup>199</sup> Microcredit programs that focus on extending credit to women could direct the country's attention to the need to provide assistance to this group<sup>200</sup> and show that women are successful at creating businesses and making loan repayments. This could enhance the overall status of women in these countries.<sup>201</sup>

MFIs could also work with local governments in a joint effort to eliminate corruption among government officials who enable trafficking in the community. Increasing surveillance of government officials to ensure that they are not participating in trafficking is necessary. Collaborating with the government to increase penalties for officials who assist traffickers would also act as a deterrent.

Local governments would also benefit from collaboration with MFIs. One goal of local governments is to provide social welfare and reduce poverty.<sup>202</sup> These communities are often poor and have limited economic resources to help supplement their poor populations. However, by teaming up with MFIs that have financial backing and access to cash, they can maximize poverty reduction by ensuring that capital is being inserted into the poorest areas of the country.<sup>203</sup>

## VI. CONCLUSION

Microcredit could be instrumental in decreasing the rate of trafficking in women. If microcredit can succeed in helping women rise out of poverty, they are less likely to seek economic opportunities abroad and thus less likely to become victims of trafficking. However, microcredit, in its current form, actually perpetuates the cycle of poverty and increases women's vulnerability to trafficking.

A significant overhaul of the microcredit system is necessary in order for it to effectively combat the global human trafficking epidemic. Unfortunately, many MFIs receive their funds from private donors and face external pressure to ensure that the loans are repaid on time and that the MFI is profitable. For microcredit to be successful in diminishing the rates of trafficking in women, MFIs need to pair flexible microloans with non-financial services for women, including educational opportunities and assistance in overcoming cultural and gender barriers. Furthermore, the MFIs need to maintain an ethos of poverty-focused development rather than wealth production in order for microcredit to successfully alleviate

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199. Rahman, *supra* note 62, at 28.

200. Taylor, *supra* note 98, at 336.

201. *Id.* at 335-36.

202. Taylor, *supra* note 98, at 334.

203. *Id.* at 335.

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poverty and diminish the rates of trafficking in women.