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The Microfinance Experiment:

An Evaluation of Programs and Effectiveness in St. Louis

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Spring 2021

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Abstract

Widespread poverty remains a reality for many in both developed and developing countries. Policymakers, charitable organizations, and entrepreneurs have introduced diverse strategies to provide individuals and communities opportunities to rise from poverty. One such method is microfinance, a system developed by Muhammad Yunus in the early 1970s to provide small loans and financial services to borrowers too impoverished or otherwise lacking in credibility or collateral to be considered by traditional means of credit.

Since its inception, microfinance has spread among other countries to mixed success. While many researchers claim microfinance has proven to be an effective tool to combat poverty, build wealth, and provide empowerment to borrowers in developing countries, programs in developed countries have not seen the same level of success.

This thesis investigates the current, specific microfinance environment of St. Louis, Missouri, USA to determine if microfinance offers poor St. Louisans a successful, sustainable method to build lasting individual and community wealth. This thesis also aims to determine if microfinance institutions serving St. Louis face the same challenges and limitations that face microfinance institutions nationwide.

The results of this analysis suggests that microfinance is a limited but successful method for a small number of poor St. Louisans. Although providing tangible economic improvements for clients, the few microfinance programs do not maintain operational self-sufficiency, impact a limited population, and rely on external subsidies to provide services. This analysis also finds that microfinance institutions face limitations in growth and outreach similar to the microfinance environment in the US as a whole.

Background Context

Access to credit and the ability to engage in financial services is the foundation to building wealth. Participation in banking services makes it possible to safely manage incomes and expenses, build savings and credit history, and pave the way for larger purchases and long-term financial prosperity. However, access to formalized financial services is limited or even nonexistent for many impoverished people and communities around the world.

One main reason for this is the lack of perceived creditworthiness among these would-be borrowers. In rural communities, poor people may have few assets at their disposal, and are therefore unable to post collateral for credit (Sengupta and Aubuchon, 2008). With little assets and limited credit history, traditional banks often overlook or deny poor villagers who seek credit because of their limited proof of repayment ability combined with an inability for banks to recoup losses through saleable assets if loans fall into delinquency. Limited and inconsistent incomes also suggest a lower ability to dependably make routine payments on loans.

Another reason is the perceived inefficient use of funds relative to alternative projects. Sengupta and Aubuchon note how many mainstream banks in Bangladesh believe “[poor villagers] lack the skills or expertise needed to put the borrowed funds to their best possible use” (2008, p. 11). These mainstream banks may believe multiple small loans to individuals to start businesses or maintain stable cash flows may produce less returns relative to a large loan towards an existing business. In turn, the net benefits to the bank and the community as a whole are perceived to be lower when lending to the poor.

In general, many may also have limited physical access to banking institutions. The World Bank found 1.7 billion adults around the world do not hold an account at a financial institution, and that nearly all of this population exists in developing economies (Demirgüç-Kunt, et. al, 2018). Banks are less likely to establish where they do not see profitable business, and are equally unlikely to serve clients that generate more risk than return. The prior reasons listed help explain banks’ lack of presence among impoverished communities, because these assumptions directly assert a risky potential client.

Microfinance aims to challenge these flawed assumptions that the poor are "unbankable" and provide financial services specifically to the poor population. Where traditional banks see this population as a liability to be avoided, microfinance institutions see these people as an overlooked opportunity to alleviate poverty in a financially sustainable manner.

Defining Microfinance

At its broadest definition, microfinance is the system of providing access to capital and financial services to poor individuals overlooked or excluded by traditional financial institutions at fair, non-predatory rates. The development and first application of microfinance is generally attributed to Professor Muhammad Yunus, who observed widespread poverty in his home country of Bangladesh (Mainsah, et. al, 2004). After concluding the despair was due to a lack of access between poor people and formal financial systems, Yunus founded the Grameen bank to extend capital to this marginalized population. Yunus' system provided the blueprint for a new, successful method to reach the poor where existing systems failed, and microfinance has grown to envelop a significant and expanding presence across the globe. As of 2018, 916 microfinance institutions maintained a global credit portfolio of $124.1 billion among 139 borrowers (Stephens and Khemar, 2019).

Specific definitions of microfinance, objectives and goals, and the roles it encompasses differs between countries and cultures, but the same general principles hold true among all applications. Microfinance is an umbrella term that covers many financial services, including savings accounts, checking accounts, insurance, and entrepreneurship support, but is most commonly recognized for its lending methodology, known as microcredit. Microcredit is often used by borrowers to fund microenterprises, such as street vending and food stalls, seamstressing, and furniture-making, but loans are also used to fund personal projects, stabilize fluctuating cash flows, or cover emergency situations. Loan sizes differ among developed and developing economies - borrowing the equivalent of $1,500 may be considered a microloan in India, whereas the United States SBA considers microloans as any amount less than $50,000 (Microloans, 2021). While many institutions are nonprofit, some successful for-profit institutions have emerged. Nearly all microfinance institutions offer

some form of microcredit, and many also require participation in supplemental services to qualify for microloans.

Microfinance institutions hold the role of extending credit and financial support systems to an overlooked population with no alternatives. McLenighan and Pogge identify these programs as “lenders of the last resort”, as they are often the only places the poor can turn to for financial support (1991). It is common for poor, often rural, individuals with incomes and collateral that are either nonexistent or so low in value to be overlooked by mainstream institutions, who do not see value in extending business to people so poor. Many individuals have limited physical accessibility to banking institutions. In some third world countries, it is common for the nearest bank to be in an urban area many miles away, rendering their services useless to the poor who have no means of transportation. For some, alternate means of accessing capital exist in the form of predatory moneylenders. These lenders can provide would-be borrowers with funds, but often at exorbitant rates that would leave borrowers heavily indebted and worse off than not taking a loan at all. As such, although one may have a profitable business idea or stable but inconsistent income, they are unable to reasonably secure credit or services from existing banks, leaving them with no ability to act on their ideas. Unable to fund a business to develop a higher income, the impoverished remained trapped in a cycle of poverty. These individuals are the target audience for microfinance.

Performance, Successes, and Limitations

Many researchers have concluded that the Grameen Bank and similar third world microfinance institutions are generally effective in providing access to capital for under and unbanked individuals, and in turn providing a method for demonstrating creditworthiness and building long-term wealth. However, existing literature shows a lower level of success among programs in developed countries.

The success these programs experience is largely due to key innovations and operating procedures that are fundamentally different from traditional financial institutions. Despite beliefs against their creditworthiness, nearly all of the borrowers from microfinance institutions maintain timely repayment rates and utilize their newfound access to capital and banking services to amass wealth. The Grameen Bank boasts an effective

repayment rate of over 98% (Mainsah, et. al, 2004), and the Federal Reserve Bank of St. Louis notes repayment rates of 95% among other microfinance institutions around the world (Sengupta and Aubuchon, 2008). These exceptional repayment rates are largely a result of key innovations, pioneered by Yunus' Grameen Bank, that drive the ability of microfinance institutions to provide services to the impoverished at minimal risk, even when borrowers have limited incomes, credit history, and collateral. These innovations - the joint liability contract, progressive lending, and flexible repayment schedules - make use of the strong social capital often found among communities within developing countries. The lack of proven creditworthiness of the poor is offset by a combination of pooling borrowers together under a shared liability and unique loan underwriting.

Distributing the burden of loan responsibilities also allows microfinance institutions to charge substantially lower interest rates on loans. Lending to clients with low and unstable incomes combined with limited collateral and credit history is inherently risky, and lending institutions normally charge high rates to account for that risk. Because of the innovations of Grameen-style microfinance, risks are distributed among the community and institutions can charge reasonable rates instead.

Microfinance institutions place an equal emphasis on individual empowerment, community development, and shared prosperity as they do financial performance, and programs often lead to indirect benefits to the areas they serve. Many programs require mandatory savings accounts and financial literacy courses, which not only benefits the individual but also translates into a more knowledgeable community as more people participate. Institutions put heavy emphasis on trust, mutual benefit, and benevolence, and there is an intrinsic focus on investing for future generations. Rather than just being an alternative to predatory money lenders, many microfinance programs push further and tie loans to overall household and community improvement. One notable example is how some Grameen loans require borrowers to send their children to school or fix their homes. While stabilizing incomes at home or opening economic opportunities for individuals, the benefits of microloans often expand outward to the house and community as a whole.

However, the success of microfinance programs is largely contingent on the environment in which they operate, as well as the abilities of those who borrow. Some researchers claim that microfinance programs create the opposite effect of the poverty-alleviation they aim to achieve, instead pushing borrowers into deepening

cycles of debt and furthering their poverty (Alam, 2012; Schicks and Rosenberg, 2011). The benefits of using microfinance services to fund entrepreneurship are limited to those who have the aptitude to start and maintain their businesses after the initial cash outlay. Similarly, businesses must also fill unmet needs to stay in operation. Only these exceptional few entrepreneurs with ideas are able to turn their loans into stable, growing cash flows.

The prevalence of alternative means to provide for one's household largely determines the success of microfinance. For developing countries, microfinance programs may provide the only means to improve one's wellbeing, and clients must abide by the constraints imposed by MFIs to secure safety and wellbeing for themselves. Many among impoverished communities in these countries have limited means to provide for their households, and their restricted access to formalized systems combined with predatory informal lenders suggest that there are very few reasonable alternatives for securing capital; MFIs are one of the few routes the poor are able to pursue. Although program features like group lending and progressive lending may make the borrowing process inconvenient and potentially burdensome for borrowers, these checks are what allow microfinance programs to extend credit without traditional means of risk management by distributing out the risks to borrowers.

For developed countries, there are often many more opportunities to provide income and some sense of economic security for a household. Welfare systems and other similar safety nets are common avenues for the poor to survive when down on their luck, and entry-level wage jobs are more available to the poor in developed countries than in a rural village in a developing country. These alternatives can provide a stable, albeit small income to even the poorest of the poor, and the process of taking a microloan or making use of other microfinancial services may provide less utility than these safety nets. Likewise, the poor in developed countries often have more access to formalized financial systems than the poor in developing countries. Services like unsecured credit cards can easily provide credit to those who might not be approved for traditional loans. In 2019, the American Bankers Association of the US reported 74 million open credit card accounts held by subprime consumers, with an average line size of $2,700 (American Bankers Association, 2019). The

accessibility of credit for the poor provides a convenient alternative to securing capital, seemingly lowering the demand for microfinance services.

The social structure of an environment is an understated but important factor in the financial sustainability of microfinance institutions. The innovations that drive the Grameen Bank's success is rooted in a culture with strong family and community ties. Group loans through the Grameen Bank depend on the connection and trust among cohorts to make timely repayments, with the negative recourse of public shame if payments are missed. Among developed countries, where strong connections among families are instead replaced by individualism, program innovations that depend on cohort performance often do not see the same success (Sengupta and Aubuchon, 2008).

The market for microbusiness is also a significant factor in determining the viability of microfinance programs focused on microenterprise development. Small, fledgling enterprises must be able to compete with existing businesses. Among more rural communities, there is little competition for microbusinesses that produce goods or services. Individuals can take small loans to start their stool-making, clothing-mending, or food-stall businesses. Contrastingly, among more urban, and often wealthier environments, would-be entrepreneurs must now compete with existing companies that provide the same products or services more efficiently, cheaper, or with more attractive marketing. Few microbusinesses can compete against firms like these. There may also be high incorporation costs for microbusinesses in more developed and formalized environments. Markets that encourage the creation of microenterprise largely drive the success of microlending.

Comparing US to Developing World Microfinance

With the resounding success of developing countries, microfinance institutions began to open in the United States to alleviate poverty in their communities. Like developing world counterparts, microfinance institutions in the US aim to offer a pathway into formalized financial services for the impoverished and underserved. However, the environment for microfinance in the United States is notably different from developing countries, and these differences have led US microfinance institutions to correspondingly adopt program objectives and methodologies distinct from developing world programs.

Although the poorest of the poor in both the US and developing countries face exclusion from traditional financial systems, there are fewer poor in the US and the poor generally have relatively greater access to these systems relative to developing world counterparts. Poverty in developing countries is more prevalent than in the US. As an example, 21.8% of the Bangladesh population lived below the national poverty line in 2018 (Asian Development Bank, 2020). The poverty rate in the US at that time was 11.8% (Semega, et. al, 2020). However, because of differences in overall price levels and methods of economic evaluation, countries vary significantly in their national poverty lines and comparison must be contextualized to be useful. Another World Bank report compares poverty rates more directly: in 2016 1.2% of the US population lived on less than $3.20 per day, whereas 52.3% of the Bangladesh population survived on that same income (World Bank, 2021).

The World Bank estimates that "virtually all unbanked adults live in developing economies", and found in 2017 that only 18 million Americans do not have a bank account, just over 5% of the population at the time (Demirgüç-Kunt, et. al, 2018; U.S Census Bureau). During the same time period, Yunus' Bangladesh had 57.9 million people without a bank account, around 36% of the population (World Bank, 2019). Part of this high share can be attributed to physical inaccessibility. There are much fewer bank branches per capita in developing countries compared to the US, which has nearly triple the number of commercial bank branches per 100,000 people than Bangladesh (International Monetary Fund). For the rural poor, the nearest bank may be multiple miles away in urban areas far from villages. Given this inconvenience, it is easy to see why many keep cash rather than deposit their wealth in banks. Developing countries also tend to have weaker telecommunication and internet infrastructure, which eliminates the benefits of mobile banking and online support that many among developed countries find familiar. The underbanked in developing countries, therefore, often remain unbanked as a result of their macroeconomic circumstances. This notion contrasts with the unbanked in developed countries, which often are unbanked due to "a lack of understanding about the US banking system, a negative prior experience with a bank, language barriers for immigrant residents, a lack of appropriate identification needed to open a bank account, or living paycheck to paycheck due to limited and unstable income" (Beard, 2010). In this sense, much of the unbanked in developed countries remain this way due to personal choice or individual circumstances rather than an outright inability to physically access banks.

Similarly, there are simply less deeply impoverished individuals with limited survival options in the US compared to developing countries. Sengupta and Aubuchon name the availability of wage jobs and presence of safety nets as key reasons for this difference. The US Federal Government operates six major welfare programs that target low income households. These programs provide a range of basic services, including healthcare, supplemental income, food assistance, and housing assistance, that establish a baseline floor for the poorest of the poor (USAGov, 2020). Likewise, there are a myriad of other federal, state, and local programs that extend other benefits like job training, educational and technological grants, and child care programs that broaden the opportunities for prosperity where there are otherwise few options. Programs like these require heavy investment and public support, and are much less common or accessible in developing countries. While it is debated whether or not these support systems provide a gateway for the poor to escape poverty (Moffitt, 2016; Baetjer, 1984;, Trisi and Saenz, 2019), it establishes a baseline livelihood greater than in developing countries where similar systems do not exist. The prevalence of wage jobs also offers the poor many options to generate income, whereas the same types of jobs are much less common in developing countries.

Despite the overall better economic situation for the poor, many in the United States remain excluded from formalized financial systems. A disproportionate share of the poor in the US are ethnic and racial minorities, and this is largely due to longstanding and historic racial injustice. US Census data shows that poverty rates among all non-white races have consistently been higher than the White population since 1959. Minority groups have experienced significant improvement, and in 2019 every minority group had their lowest respective poverty rates since data recording started, but only Asians have ever matched Whites' consistently low poverty rates. Blacks have consistently had the highest poverty rates among all racial groups, and the poverty rate in 2019 was 18.8%. (Creamer, 2020).

Consistent, systemic racial inequity, particularly for Blacks, leads to direct and indirect negative outcomes that would otherwise not exist if those racial injustices did not occur. Health disparities include disproportionately higher rates of "disease morbidity, mortality, disability, and injury" (Mays, 2007, p. 2). Access to grocery stores and healthy food is less common, and Black families are more likely to receive and use food stamps (FLOURISH St. Louis, 2020). One of the most significant impacts from systemic racism is the

inability to generate wealth and improve long-term financial wellbeing. A 2015 report from the CFPB found that "almost 30 percent of consumers in low-income neighborhoods are credit invisible and an additional 15 percent have unscored records" (Brevoort, et al, 2015, p. 6). Because the foundation of lending and access to credit for formalized financial systems in the United States is rooted in credit scores, nonexistent credit scores exclude the poor from securing loans to purchase assets and homes, establish businesses, or cover personal emergencies. These consumers may be economically similar to more advantaged populations, but are not afforded the same ability to secure credit, artificially stunting their ability to accumulate assets and build wealth like White counterparts. Alternative financial institutions like payday lenders exist, but engaging with these predatory firms will often put a borrower in a worse financial position than without borrowing at all. Without a reasonable alternative, credit invisibles are trapped between stagnant growth through existing incomes or extreme risk. Furthermore, there are fewer opportunities to build wealth and escape poverty for populations that have been systemically disadvantaged. Even though large strides may have been made in counteracting racial injustices, the damage has been done to communities where a lack of financial investment and government support leaves the poor stagnated. Although wage-jobs are common among the poor, a lack of business incorporation in at-risk neighborhoods may result in few available and accessible opportunities, particularly among those reliant on public transit. Microfinance is one alternative to fill the client gap that for-profit banks have decided not to serve. Poor clients gain the financial knowledge and ability to borrow at the same rates as advantaged populations, further decreasing the prosperity gap between racial groups.

Microfinance institutions in the US have adapted their operating methodologies as a result of these structural and environmental differences. Where most microfinance institutions in developing countries focus on microenterprise and collective social development, US programs often focus solely on individual improvement, and financial literacy and education are as common as extending loans. It is likely because of the overall greater access to financial services for the poor in the US that some programs place higher emphasis on counseling and educating clients on existing programs rather than operating their own savings, checking, or microloan programs. The size of microloans are significantly greater than international counterparts. There is no globally defined amount for a microloan, and this definition relies on the geographic context. In the US, the

Small Business Association defines a microloan as any amount up to $50,000, whereas the Reserve Bank of India defines the limit for Indian microloans at 125,000 rupees, equivalent to roughly $1,725 (U.S. Small Business Association, “Microloan Program", 2021; Press Trust of India, 2019). The value of a dollar in a developing country carries much further than in the US. As a result, US microfinance institutions extend significantly larger loans to borrowers. The 2016 Microenterprise Census of 72 nationwide microfinance institutions reports an average loan amount of $20,329, with the smallest loan at $2,188.46 (Aspen Institute, 2018). For comparison, the global average loan amount was $885 over that same period (Stephens and Khemar, 2019). Correspondingly, loan volumes are lower.

US microfinance institutions in the US see notably less success than developing world counterparts on almost all fronts. Sengupta and Aubuchon find that microfinance in developed countries “fails to deliver the same rapid growth and poverty alleviation as it has in the developing world” (2008, p. 25). It is more expensive for microfinance institutions to lend in the US. Administrative costs are higher than in developing countries for a number of reasons. Grameen-style microfinance leverages the social capital of their environments to extend group loans, which reduces risks of loan default among borrowers and decreases the transaction costs of lending by shifting the burden of loan screening and management onto the group itself. The lack of social capital in most low-income communities in the US renders these innovations ineffective. Without close social ties among communities, groups are often composed of relative strangers who have little stake in the success or failure of their group members. As a result, few are willing to engage in the informal methods of loan management, repayment tracking, group support, and routine check-ins that reduce the need for costly risk management tools. Bhatt and Tang note that microfinance institutions who tried to implement group lending without the presence of collateral and formal tracking experienced default rates five times higher than developing world counterparts; US institutions must instead use more formal, expensive means of loan management that “have rendered many microcredit programs unsustainable” (Bhatt and Tang, 2001). Because of the higher costs and lower profitability of programs in the US compared to developing countries, most microfinance programs do not achieve operational sustainability.

As a result, programs must continually rely on outside financial support to offset overhead expenses in addition to operational expenses not covered by revenues. Even if no loans fall into default, the small loan size, low loan volume, and inadequate interest rates rarely offset the larger administrative costs of staffing, loan tracking, and basic infrastructure. Programs in developing countries benefit from less-expensive informal loan management. The lack of public welfare programs and overall less access to existing financial systems leads to a higher demand for microfinance services, offsetting the small size of loans. Because many microfinance programs prioritize fair access over self-sufficiency, many offer interest rates that do not offset the default risks and costs of their programs. US programs also face higher incorporation and operating costs compared to developing country counterparts.

Would-be entrepreneurs find much less success in starting viable businesses than developing world counterparts. Schreiner notes "microenterprise for the poor is more difficult in the first world than in the third. Microenterprise is a good choice for a few extraordinary poor people, but wage jobs, additional education, and job training are still the most common paths out of poverty" (Schreiner, 2001, p. 2). Likewise, the existence of public welfare programs largely undermines the necessity for microenterprise; Edgcomb, Klein, Clark confirm these notions, finding that microenterprise only accounts for 8-20 percent of all jobs due to availability of wage jobs/public assistance (1996). Still, microfinance remains an important tool in providing overall greater access to financial services for those excluded by financial systems, as well as offering a viable option against predatory alternatives. Many fill the niche of being theoretically bankable but excluded or ignored by mainstream finance.

Review of St. Louis Microfinance Programs

On the St. Louis Environment

The market for microfinance programs in St. Louis seems promising. The number of people living in poverty has steadily declined year over year, but the poor remains a significant part of the city population. The St. Louis Federal Reserve estimates that between 2010 and 2014, the percent of St. Louis' population living below the federal poverty line peaked at 27.8% of the population, and declined to 21.8% between 2015 and 2019 (U.S. Census Bureau, 2021). Similarly, in 2016 just over 6,000 homeless St. Louisans sought and received emergency housing services, indicating that of the poor population, nearly ten percent are unable to generate enough income to own a house (City of St. Louis, 2021).

Racial disparity is significant among the poor population in St. Louis. As identified before, Black populations have the highest poverty rate among racial groups in the US, but the prosperity gap between Blacks and Whites in St. Louis has been at the forefront of the nation since the shooting of Michael Brown in 2014. Decades of systemic racial discrimination has led to disproportionately fewer social, economic, and political opportunities for black and minority populations in the St. Louis metropolitan area (Cambria, 2018). Examples of discrimination include redlining and limited access to GI Bill benefits (Hernández Kent, 2020). As a result, black and minority residents are more likely to experience lower incomes, less education, and higher unemployment and homelessness rates than the white population. Similar gaps exist on health metrics, including insurance, obesity rates, and mortality rates. 2021 demographic data shows that although median household income for all races is $47,973, income for white households is $66,638, exceeding the median by over $20,000. Median income among the black population is $30,407. (Think Health St. Louis, 2021). Black residents also lead homelessness, and nearly four times as likely to experience homelessness as white residents (City of St. Louis, 2021).

Many of the poor in St. Louis do not participate in existing financial systems, either by choice or exclusion. A five-year estimate from 2013 to 2017 provided by the FDIC projected 6.5% of households in the

St. Louis metro area as unbanked, and 17.5% as underbanked. Just under a third of households with an income less than $15,000 were unbanked, although the underbanked population appears uniform across income groups at around 20% (FDIC, 2019). Many may not trust financial institutions and choose not to utilize their services. For others, income discrimination and geographic context suggests there is little opportunity to access banks. Data regarding household incomes by census blocks show that median income varies drastically between census blocks, and a majority of lower income census blocks are concentrated north of Delmar Boulevard, a division between classes commonly referred to as the "Delmar Divide" (City-Data, 2020; Baker, 2019). Few banks may want to incorporate in areas where profitability may be perceived to be lower, risks higher, and sentiment negative. There is a subsequent lack of financial institutions among poorer communities (DepositAccounts, 2021). With few physical branches, these individuals are simply unable to engage in financial services, even if they may qualify for participation elsewhere. For the few that can access banks, low ability to provide collateral and limited assets, credit history, or sufficient income often lead to denials.

With few options, many turn to dangerous credit alternatives. Payday and title lenders, pawn shops, and similar services can essentially hold monopolies over neighborhoods, providing services equivalent to banks and credit unions but at significantly higher interest rates that often cripple borrowers and place them in a cycle of debt. In 2012, the University of Missouri found that the average APR for payday loans in Missouri was 444.61%. The same report found that these lenders tend to concentrate in low-income communities, which are often home to Black and minority populations (McCaulley and Procter, 2012). Both individuals and businesses alike conduct business with alternative credit services. Galen Gondolfi of Justine Petersen notes "Many businesses are falling prey to predatory rates and high interest rates [for] small-business loans, which are very much prevalent on the internet, as well as in brick-and-mortar operations throughout the St. Louis region" (Lewis-Thompson, 2019). Microfinance institutions often provide the same level of services at reasonable rates for a fraction of the cost, but there still remains a large number of credit alternatives available to consumers.

Data Procedures and Analysis Framework

This paper aims to review the successes and limitations of microfinance institutions operating specifically in the St. Louis metropolitan area, and compare those criteria to the successes and limitations of the general US microfinance environment. This paper defines microfinance institutions as any organization that offers loans, savings accounts, checking accounts, or financial advisory services specifically targeted at individuals that live below the federal poverty line, in historically low-to-moderate income households and communities, and the unbanked and underbanked. Definitions on microloan size differ substantially between countries, governmental authorities, and microfinance institutions; this paper uses the definition established by Servon, considering any loan below $35,000 as a microloan.

Although there are national and international programs that include St. Louis in their scope of operation, most notably the Grameen Bank and Accion USA, these large-scale programs have not been included in this review. These programs inhabit large environments that have limitations, influences, and other circumstances that may not reflect the unique conditions of St. Louis that consumers and microfinance institutions face. In other words, factors that affect international MFIs may not necessarily be relevant to the St. Louis environment. As an example, nationwide programs may have business partnerships that reduce overhead and administrative costs, which can be passed down to local operations. Although there are many well-known microfinance institutions in the St. Louis region, none come close to experiencing that amount of influence. It is for the same reason that this paper does not include online microlending programs like Kiva or Rise; these programs operate in an inherently larger scale, different environment and therefore cannot be compared or studied in St. Louis' specific context.

To accomplish this research, I compiled a list of twelve potential organizations that are either explicit microfinance institutions or provide services that can be categorized as microfinance. This list was compiled from various sources, including the *CDFI Locator* operated by the Opportunity Finance Network, the Aspen Institute's *Microtracker*, the St. Louis CDFI Coalition, previous literature on microfinance in St. Louis, and various Internet sites. Of those twelve organizations, eight actually offered some form of microfinance services. This list is not exhaustive; it is difficult to identify every operating microfinance program in the region, and

there are likely many small, neighborhood-focused programs that do not maintain a strong public presence and hence were overlooked. However, the organizations identified below represent some of the most prominent microfinance institutions in the St. Louis metropolitan area.

I am summarizing the most archetypal organizations' microfinance programs and evaluating them on three criteria, inspired by the three overlapping problems among US microfinance institutions identified by Bhatt and Tang. There are some MFIs in the above list that provide similar services to similar demographics in a similar manner; less prominent programs are included in the figures below, but are not explored in great detail due to their similarity to more representative programs. Programs are summarized by their microfinance-related mission and objectives, product offerings, target demographics, and unique circumstances. Second, the programs are evaluated on their financial outcomes. This criteria includes product performance as well as the ability to manage risk. Third, the programs are evaluated on their social impact, including the ability to accomplish program objectives, size of program scope and outreach, and impact on client and community prosperity. Last, the programs are evaluated on their administrative sustainability. This criteria includes review of operational sustainability and self-sufficiency, source of program funding and dependence on external funding sources, and stakeholder management. Programs are deemed successful if they adequately address the three evaluation criteria.

The Data

Justine Petersen

Justine Petersen is widely regarded as the most prominent microfinance institution serving the St. Louis area, as well as one of the largest Small Business Administration microlenders in the country. Their range of operations extends across the entire state of Missouri and into small sections of Kansas and Illinois, but the primary focus of their services targets the low-income and underserved populations of the St. Louis and Kansas City metropolitan areas. According to their 2019 Annual Report, Justine Petersen and its subsidiary extended 1,081 loans that fit the microfinance definition, totalling $7,282,518. Two out of three loans made in 2020 were to people of color, and 60% of borrowers were women.

The organization aims to further the legacy of their namesake, Justine M. Petersen, a social worker who pioneered community reinvestment loan products through work with local St. Louis banks in the 1980s. As noted in Justine Petersen's 2019 Annual Report, the organization recognizes that individual and community prosperity comes from one's ability to build financial assets, and Justine Petersen embraces their role as an asset building organization by providing access to safe and affordable financial services for those who have been historically turned away by mainstream finance. As Chief Communications Officer Galen Gondolfi told me, "the fundamental asset that [Justine Petersen] aims to build is the personal credit score". The organization aims not to compete with existing banks and credit unions, but instead offer excluded clients a route to build their financial position and "graduate" into traditional banking systems. Gondolfi summarizes: "We're a port of entry. The ultimate goal is to take a client and graduate them to mainstream finance".

In as much, Justine Petersen sees itself as an "intersection of social work and banking", equally prioritizing financial performance and social impact (Gondolfi, personal communication, 2021). Likewise, Rob Boyle, CEO of Justine Petersen, recognizes the collective history of systemic racism in St. Louis, and encourages the role of Justine Petersen as a leader in breaking down the racial equity gap (Justine Petersen, 2019). Success for the organization means not only positive loan metrics but also the building of household wealth, development of trust and personal relationships, and reduction of historical economic barriers.

Justine Petersen provides a wide portfolio of microloan products targeted towards both the unbanked and underbanked, as well as the historically underserved and under-resourced populations and communities. The main product Justine Petersen offers are SBA Micro-Enterprise loans. These loans can be as low as $500 and cap at $50,000. The average historical loan size for Micro-Enterprise loans averaged around $12,000. Justine Petersen also conducts credit-building and consumer microlending through their CDFI subsidiary, Great Rivers Community Capital (GRCC). These types of loans serve as an alternative to utilizing predatory alternative credit programs. Historically, these loans average $10,000, but loans are largely personalized based on individual client circumstances. Justine Petersen also offers housing and home improvement loans with an average loan size of around $9,259. Loan performance is reported to credit-reporting agencies.

When asked about limitations and challenges, Gondolfi identified the cost of capital and the costs related to deploying capital. Much of Justine Petersen's lending portfolio is funded by SBA loans, which Justine Petersen borrows at the current SBA rate and lends at a higher rate to clients. When the cost of boring SBA loan funds increases, these costs are passed off to clients, which may limit lending ability and cause stronger financial shocks to clients if loans fall past due.

Financial Outcomes

Justine Petersen appears to have high-performing loan portfolios. Although Justine Petersen did not disclose loan performance metrics, Gondolfi notes that the organization uses traditional performance metrics like delinquency and charge off rates, and the organization "is able to have the appetite to take on the kind of risk that we're taking on" . Gondolfi also notes that programs are hitting their peak targets because loan performance is not perfect: "if our loan performance and delinquency was a hundred percent, one could almost make the argument that we're lending to the wrong population - that population should actually be banked by mainstream finance and not us". Justine Petersen's microlending programs have also been in operation for over twenty years, and the organization conducts little paid advertising. It can thus be inferred that positive performance on loans has been consistent with Justine Petersen's operations.

Although the organization has scaled up significantly since its inception over twenty years ago, the program's microfinance products likely maintain high costs. The program specializes in a high-touch operating model that prioritizes one-to-one interactions. Relevant literature on similar programs in the US indicate that Justine Petersen's model likely results in transaction costs greater than the returns on loans (Painter and Tang, 2001; Edgcomb and Klein, 2005; Servon, 2006).

Similarly, Justine Petersen's loan portfolio does not follow the Grameen-style microlending methodology, using traditional means of risk management rather than collateral alternatives like group lending. Gondolfi notes that Justine Petersen's operations tend to emulate mainstream western finance rather than the systems that found success in developing countries because of the differences in the communal nature.

Social Outcomes

Contrary to many microfinance programs in the US, Justine Petersen does not experience problems with outreach or program awareness. New clients come to Justine Petersen through word of mouth, and its lending programs have never faced a "lack of need or demand" (Gondolfi, personal communication, 2021). The organization also seems to reach its target demographic and fulfills its mission to make financial services accessible to the historically underserved poor and minority population in St. Louis, and Justine Petersen displays many anecdotal success stories on their website. However, the organization did not disclose any further information on their clients' financial wellbeing after borrowing, so no conclusions can be directly drawn on the poverty alleviation of their programs.

It also appears that Justine Petersen's programs have improved the financial stability of their clients. With regard to the COVID-19 pandemic, Gondolfi notes that although "most [Justine Petersen] clients were in dire straits...losses are not, at the moment, where we had actually envisioned". Given how Justine Petersen's clients normally utilize loans for small business development and credit building, it can be inferred that clients are financially healthy enough to manage their debts, implying that loans have helped develop positive financial habits.

Administrative Outcomes

Justine Petersen maintains a strong dependence on external sources of funding. Gondolfi notes that the organization’s micro-enterprise loans are funded almost exclusively by SBA borrowings. The consumer loans provided by Great Rivers Community Capital rely on funding from the Department of the Treasury’s CDFI fund, grants and investment from St. Louis region banks and institutions, and contributions from corporations, private foundations, and individual donors. Without this continued external subsidy, Justine Petersen would likely not be able to operate self-sufficiently.

Public tax documentation shows that Justine Petersen operated at a net loss of $768,518 in 2019. Total revenue for the year was just over $4.782M, while expenses topped $5.550M (Internal Revenue Service, 2019). For comparison, the organization instead saw a net gain of $95,430 in the previous year. This large change in net income is due to fluctuations in external funding, as expenses remained relatively stable and program revenue increased by $0.385M, but contributions and grant revenue decreased by $1.292M, almost a 33% drop from 2018’s numbers.

Although the majority of expenses came from program operations and administrative costs, employee salaries and compensation accounted for 41% of the organization’s expenses, a significant portion. Justine Petersen places heavy emphasis on personal interaction, establishing one-on-one meetings with clients to review creditworthiness, plan actionables, and offer mentoring and advice. As a result, the organization requires a large staff to provide this in-depth service, and staffing demands will only increase as Justine Petersen continues to expand.

International Institute

Founded in 1919, the International Institute has served the immigrant and foreign-born populations of St. Louis for over a century, extending aid and support to make the transition into the United States as easy as possible. The Institute employs ninety staff members and hundreds of volunteers to teach English and citizenship classes, offer job placement assistance and career training, encourage small business development,

and extend microloans. In 2019, the organization extended $6,392,506 of programs. Over that same amount of time, the organization ran at a financial loss, accruing $7,075,397 of expenses against $6,843,492 of revenue.

The Institute extends three microfinance products to its clients through its subsidiary, the International Institute Community Development Corporation. The first product is a microloan to start or supplement a small business. Loans begin at $500 and cap at $35,000. In addition to funding, the Institute provides business expertise, including IT, law, accounting, marketing, and insurance, via volunteer aid. The Institute also offers credit building loans at a fixed value of $750, with repayments reported to credit agencies. Clients are also able to open an Individual Development Account with the Institute. The organization matches two dollars for every dollar of savings contributions up to $3,000, and clients are able to use their accrued funds to help purchase an asset, including homes, post-secondary education, a small business, or a personal vehicle. According to the Institute, the majority of loans go to "restaurant owners, taxi and Uber drivers, small retail business owners, beauty salon operators, daycare providers, and those operating similar enterprises" (International Institute, 2021).

Financial Outcomes

The International Institute does not disclose information about microloan interest rates, delinquency rates, or other credit metrics. However, it is likely that these loans exhibit interest rates significantly lower than necessary to turn a profit. In the Institute's 2019 Annual Report, the organization notes 102 concurrent loans in their portfolio (International Institute, 2019). Because of the small loan size and low volume, it is implied that the organization's microloans run at a financial loss. Similarly, the Individual Development Accounts are matched by the organization at a two-to-one ratio. In 2019, twenty five IDAs opened. Although low impact relative to the organization's programs, this initiative also likely runs at a loss.

Social Outcomes

The Institute has maintained a long history of positive impact for immigrants to the St. Louis region, and their microloan offerings also appear to follow that positive impact. The Institute notes an economic impact of

$5,172,000 in 2019 as a result of their microloan products (International Institute, 2019). The organization did not disclose any other details regarding social impact of loans.

Administrative Outcomes

The Institute's microfinance arm likely relies heavily on external grants, contributions, and donations, and is likely not able to operate independent of outside funding sources. In 2019, the organization extended $413,755 of economic development. While the organization does not disclose revenues from these operations, it is likely they do not generate enough revenue to cover the transaction costs. Similarly, the organization only generated $766,430 in revenue as a result of total program fees in 2019, just over ten percent of all revenue for the year. The remainder of revenues was from contributions, foundations, grants, and donated services (International Institute, 2019).

Prosperity Connection

Founded in 2009, Prosperity Connection is a subsidiary of the St. Louis Community Credit Union with the goal of improving access to financial services, resources, and opportunities for at-risk and low-to-moderate income households. Prosperity Connection believes that a lack of financial literacy is one of the largest limitations for individual economic growth, and the organization mainly provides financial coaching and training to the poor without this knowledge.The organization currently operates four locations, called "Excel Centers", in economically distressed communities in the St. Louis metropolitan area where financial coaches conduct one-on-one sessions and large-audience seminars on various personal finance topics.

Prosperity Connection also operates its own non-profit subsidiary, RedDough Money Center, to provide fringe banking services for unbanked and underbanked households. Prosperity Connection's Director of Operations, Camille Branch, calls RedDough a "payday lender with a heart", offering services like short-term microloans called "Helping Hands" loans, as well as check cashing and bill pay services, to impoverished individuals who would otherwise have to turn to predatory lending. In 2019, RedDough extended $621,904 through 977 Helping Hands loans, with an average loan size of $636.54 (Prosperity Connection, 2019).

The organization maintains many partnerships with mainstream financial institutions, which contribute funding, program outreach, and administrative benefits. According to Branch, although the St. Louis Community Credit Union does not provide direct funding for operations, they provide much of the administrative and overhead support that allows Prosperity Connection to operate. The support Branch mentioned includes "[being] part of their payroll" and "getting all their [HR] benefits...like healthcare, 401K matching, all of those things", as well as sharing the same IT network and some facilities (Branch, personal communication, 2021). Partnerships with local US Bank locations, as well as numerous local banks and credit unions, fund day-to-day operations and services and spread awareness among their at-risk clients.

Financial Outcomes

Prosperity Connection's microlending through RedDough mitigates risk through traditional methods, and maintains high transactional costs that are passed onto clients. At first, the microlending program charged clients interest rates of 36% for Helping Hand loans, yet the organization ran at extreme losses of nearly one million dollars per year (Branch, personal communication, 2021). In 2019, RedDough raised the interest rates on its loans to 120%, which was the program's break-even rate (Branch, personal communication, 2021). Although this rate is significantly lower than the 444% charged by alternatives, this high rate still poses danger to clients, and may result in a cycle of debt among borrowers.

Although much of Prosperity Connection's operations rely on client trust and benevolent attitudes, charging high interest rates are likely a product of their operating environment rather than predatory intention. According to Branch, the high rates are a necessity due to high default rates. Due to the smaller size of loans, loan underwriting and processing is costly, and these costs must be covered by interest rates. The lack of social capital in the St. Louis environment makes the cost-saving and risk-management benefits of cross-collateral group lending unattainable.

Social Outcomes

The organization reports consistent economic improvement for clients. The organization places a heavy emphasis on extending goodwill and poverty alleviation. Measures of success include accumulated savings and

debt reduction, relative cost savings for clients compared to predatory lending alternatives, credit score improvement, and asset purchases. Along these metrics, Prosperity Connection and its subsidiary have seen consistent success in improving clients' financial position through their coaching and consulting services. In 2019, Prosperity Connection reported an average individual credit score increase of 34 points, nearly $250,000 of client debt reduction, and $78,000 of client savings accumulation (Prosperity Connection, 2019). Likewise, clients reportedly purchased eleven automobiles and fourteen homes, but it is unclear how much of these purchases can be attributed to Prosperity Connection's programs. In that same time frame, RedDough reported comparative cost savings of over $1,100,000 for clients using RedDough's fringe banking services instead of predatory payday lending (Prosperity Connection, 2019). It should be noted that, although much lower than payday lending rates, the 120% APR charged by RedDough is still very high, and may lead to negative consequences for clients if default occurs.

Prosperity Connection also seems to build client empowerment and confidence through their programming. According to their 2019 Annual Report, 432 clients established goals through the organization. Examples include "increase credit score", "decrease outstanding debt", and "purchase a home". It is important to note that clients set their own goals, which is often the first step in helping clients realize their own ability to financially succeed. Clients also demonstrate repeated participation in programs, with repeat attendees responsible for 44% of class attendance. Of 433 people surveyed, 81% indicate increased confidence in their financial knowledge and ability to succeed. Not only do Prosperity Connection's programs provide a method for low income populations to drive their own prosperity, clients demonstrate positive program impact.

Administrative Outcomes

Without the overhead support from its owners and funding from external sources, Prosperity Connection and RedDough would likely not be able to operate self-sufficiently. According to Branch, external funding covered the cost of underwriting RedDough's Helping Hand loans, but the organization continually faced losses reaching one million dollars per year. These losses were a result of their lending structure, which charged an interest rate of 36% on the loans, too small to offset transaction costs and defaults. Even after RedDough

quadrupled their interest rates, lending operations merely broke even. Prosperity Connection's main coaching operations are entirely funded by external entities. In 2019, the top three ten external funders nearly contributed one million dollars to the organization (Prosperity Connection, 2019). Any interruption in the cash flow from funders would be detrimental to the organization's ability to operate. Even if Prosperity Connection and RedDough maintained operational profitability, their dependence on the St. Louis Community Credit Union to provide administrative and overhead support renders program self-sustainability impossible without significant change.

Midwest BankCentre

Midwest BankCentre (MBC) is a for-profit bank located in the St. Louis region. The bank has been in operation for over one hundred years, but has recently gained a focus in connecting underserved and low-income Black communities in St. Louis to financial services. MBC operates nineteen branch locations with nearly two billion dollars of assets under management. The services the bank offers is vast, including depository, lending, and on-the-go financial services for consumers and small businesses, as well as mortgages, insurance, and financial planning services. The bank has been recognized by the ICBA and ABA Foundation for their impact in bringing mainstream banking and empowerment programs to previously underbanked families and minority communities in the St. Louis metro area ("ICBA Names Midwest BankCentre…", 2015).

I met with Alex Fennoy, the bank's Community and Economic Development Director, to learn more about the bank's services. According to Fennoy, the bank provides "all types of lending in distressed areas or neighborhoods that have been historically disinvested". The purpose of these services is to provide alternatives to predatory lending and to bring potential clients into long-lasting relationships with the bank. CEO Orv Kimbrough notes, "Our entire community benefits when individuals and businesses have access to non-predatory banking services, improving their financial health and the financial health of their communities." (St. Louis Construction News and Review, 2019). MBC does not consider itself a microfinance institution, but the bank provides a large number of consumer financial services that inhabit the microfinance space. Fennoy explained these services are too low volume and too fringe for the bank to be considered "a whole microloan

program", but clients have come to use these services after seeing little success with Justine Petersen and the International Institute, the main microfinance institutions in the area (Fennoy, personal communication, 2021).

For consumers, Midwest BankCentre offers a range of services tailored towards low-income, unbanked, and underbanked individuals to encourage participation in mainstream financial services. Their Life Happens Checking account is for clients "who are trying to establish or rebuild their financial history", with no minimum balance requirements and a $25 account open minimum ("Life Happens Checking", 2021). The bank provides three types of personal microloans, and one credit-building booster loan. The Affordable Home Improvement Loan offers consumers financing up to $10,000 for owner-occupied family residences living in low-to-moderate income census tracts. In 2019, the bank extended $131,000 through these loans (Midwest BankCentre, 2019). According to Fennoy, the product boasts a 7% default rate over its nine year history, despite its relaxed credit score requirement of 580. Fennoy notes similar products that approve at a 580 credit score face default rates of one-in-four. The Emergency Assistance Loan is an unsecured loan for individuals that face an unexpected event or disaster. This product ranges from $1,500 to $10,000 and maintains an APR of just under four percent. The Payday Alternative Loan can extend clients between $100 and $1,000. The Credit Booster CD Loan offers clients a method to build or rebuild their credit while growing a nest egg with their invested funds for future purchases.

Financial Outcomes

Midwest BankCenter uses traditional credit evaluation methods to judge loan applicants, and there is no mention of any alternative means of risk management on microloan products. The bank also charges interest rates lower than required to be profitable. In this sense, the microloan products that midwest BankCentre provides do not generate positive operating profit. Fennoy explained this notion through their Affordable Home Improvement Loan. Interest rates on these loans should be between fourteen and sixteen percent, yet the bank charges just under four percent. Even if the bank generated "ten thousand of them and we only had the single thing, then they're not going to be profitable" (Fennoy, personal communication, 2021). Although the bank

does not disclose loan underwriting information, it is likely that other microloan offerings are lower than market rates as well.

Social Outcomes

Despite their for-profit structure, the bank's microlending programs have made tangible improvements for their clients and the St. Louis region, but much of these benefits are a result of long-term involvement into MBC's mainstream financial systems rather than short-term access to capital and financial services. When clients utilize MBC's microloan products, opportunities open for further business with the bank. Their successful repayment of loans and active use of accounts is definite proof of creditworthiness to the bank, which is especially important for clients seeking banking services but are excluded elsewhere.

However, there are some direct benefits of the bank's microloan offerings. Inherent in the bank's operating structure is a commitment to individual and community improvement. The microfinance products the bank provides are marketed at significantly lower rates than what should be charged, which not only provides a more than reasonable alternative for clients to utilize these products rather than predatory credit alternatives but also extends clients credit that is much cheaper than equivalent mainstream products. Clients are able to borrow more, up to product limits, for the same cost relative to other, equivalent products - which provides clients with utility and a greater opportunity to improve their economic well being. As an example, a client may borrow money for a necessary home repair to increase home market value or improve quality of life for less, and the money they save can be used for alternate methods such as groceries, transportation costs, or other necessities.

Administrative Outcomes

The microfinance arm of Midwest BankCentre is not self-sustainable and maintains a strong dependence on the larger-scale, more profitable arms of the business to support its operations. Products like the Emergency Assistance Loan and Payday Alternative Loan run at an immediate financial loss due to high transaction costs and internationally lower interest rates for consumers than required to break even or run at a profit. However, Fennoy notes that the relationships built with new clients as a result of these products have been profitable overall, and this long-term partnership between bank and client is the ultimate benefit of these programs. In this

sense, Midwest BankCentre appears to have a working and consolidated model of bringing unbanked and underbanked clients into their traditional financial systems. This positive feedback loop makes the microloans worthwhile in the long-run, and even more so as clients further develop their financial position.

Much of this success can be attributed to the trust that is built through conducting business. Clients of MBC that first utilize their microloan programs often return to take out further loans, open accounts, and conduct normal business. Fennoy cited an example: “The goal is to get them in with that, and as they move on in life, they remember that we helped them repair their roof. Then they’ll work with us on a student loan, a car, a full mortgage, or a small business.”. MBC’s operating principles center around working with individuals and acting in their best interests, while still maintaining profitable positions for the bank. Fennoy asserts that the bank maintains a “not yet” philosophy rather than a “no” policy - in other words, when potential clients do not qualify for certain products, the bank “will walk alongside” and help outline a plan for the client to reach that point of success. Among the unbanked and underbanked population is a widespread distrust for financial institutions, but it seems that MBC’s operating structure and products build this trust, which in turn leads to continued use of services with the bank. On the other hand, repetitive, “one-time-use” of microloan products would not be profitable for the bank, even if microloan product volumes increased - the value for the bank is driven through conversions of clients into their traditional banking products.

Incarnate Word Foundation and its’ Banks

The Incarnate Word Foundation (IFW) is not a microfinance institution, but instead a funder of small-scale, community-specific microfinance institutions. Incorporated in 1997, the foundation accomplishes its mission to “empower the poor and marginalized to attain quality of life” through grants and charitable contributions to community improvement initiatives (Incarnate Word Foundation, 2021). The specific objectives of the foundation’s work has changed throughout its history to respond to changing needs within the St. Louis community. Regardless of subject matter, the foundation places high emphasis on empowerment, collaboration, and stewardship. Many of the programs that the foundation funds originate from the communities they aim to serve.

In the early 2010s, the Incarnate Word Foundation launched an initiative to fund microfinance programs in the St. Louis area. Bridget Flood, the Executive Director of the Incarnate Word Foundation, led this initiative after observing the success of microfinance programs for women in Zambia. The foundation sought to fund groups among different communities to create their own local programs with their own objectives. Flood identified seven potential agencies to host programs, and five institutions formed through the foundation's initiative. Of the five institutions, Flood identified the Healing Hearts banking system and Helping Hands Bank as the most successful. Two other banks failed quickly after incorporating, and Flood noted these failures were caused by a lack of social capital and trust between borrowers, as well as a lack in perceptions of ability to run such programs (Flood, personal communication, 2021).

The Healing Hearts banking system emerged from a $5,000 Incarnate Word Foundation grant to the National Council of Jewish Women NCJW in September of 2011 (Montgomery, 2013). According to Flood, this program operated within womens' domestic violence shelters, extending loans to women who were victims of intimate partner violence. Four subsidiary branches of Healing Hearts opened, and these branches extended loans up to $500 to clients for transportation, work-related clothing, childcare, and education expenses. Branches are formed and operated by volunteers from each partner agency, often being potential clients themselves, and each branch identifies their own underwriting structure. Volunteers from the NCJW provide overhead support and loan tracking, and successful repayment is reported to credit agencies. Each branch charged different interest rates, varying between two and five percent, but all branches offered flexible repayment schedules in emergency situations. The program reports 170 total loan disbursements since the program began (NCJW, 2021).

The Women's Helping Hands Bank formed with the goal to help women in their community become bankable by offering microloans and micro-savings accounts. As of 2017, the bank extended over $60,000 to low-income families (VOW STL, 2015). The program's website notes that loan applicants are evaluated through "face checks" rather than "credit checks", and much of risk management is based on trust. It is unclear whether the program is currently in operation.

Financial Outcomes

These banks appear to follow Grameen-bank styles of risk management, making use of existing social capital and mutual trust between borrowers and lenders. Both the Healing Hearts Bank and Women's Helping Hands Bank evaluate clients through face value and group approval, rather than credit score. Similarly, loans from these programs follow terms established by the very clients borrowing money, and are managed by partner agencies. Although there is very little information regarding the effectiveness of this social-based nature on delinquency and risk management, it is likely that transaction costs are extremely low, as loan management responsibilities are distributed among the same group that provides the loan.

Social Outcomes

The microfinance programs funded through Incarnate Word Foundation contributions have found great success in empowering their clients, as well as helping clients to avoid negative financial outcomes due to bad circumstances. Many of the loans are intended for covering unexpected costs, including car repairs, work-related expenses, or other impactful situations, For clients with little alternatives, these loans provide a lifeline. Given the ability to start building their economic well being, these microloans also improve self-confidence: Flood notes "I think about the women at the Woman's Helping Hands Bank, who went from saying 'we don't know how to do this' to 'we speak for our neighborhood" (Flood, personal communication, 2021). Flood continued on to describe how centuries of systemic racism in St. Louis makes even small victories like constructing a unique loan program and taking microloans can lead to a huge empowering impact.

Administrative Outcomes

Programs of this size may have a semblance of operational sustainability, but are extremely limited in their ability to scale. In the decade since their incorporation, these programs have distributed less than 300 loans, at most resulting in $145,000 in total loans distributed. Compared to the scale of the St. Louis metropolitan area at large, these loans demonstrate a nearly insignificant impact on the ability to alleviate poverty on any scaleable level. Clients may see benefits from these services, but those benefits are limited only to the handful of potential clients in those communities. The low volume and small loan size does not generate

nearly enough income to expand these programs to any reasonable size without outside subsidy. Even with outside subsidy, the individual differences among programs and dependence on trust when social capital at large is lacking render this type of program potentially empowering and sustainable for a few clients, but systematically insignificant on a grand scale.

Conclusions

The microfinance environment in St. Louis maintains a small and limited impact on the economic environment in the St. Louis metropolitan area. There are few microfinance institutions and organizations providing microfinance services, with large-scale organizations conducting the majority of programs and impacting the most clients. There likely are other microfinance programs operating in the area, but maintain an impact too limited to be identifiable. Microfinance institutions can be distinguished between three overarching categories: The first category represents large-scale organizations and institutions that explicitly focus on microfinance programs. The largest and most well known is Justine Petersen, which extended the most volume of microloans and maintains the largest presence in the area. Prosperity Connection is a subsidiary of the St. Louis Community Credit Union that explicitly provides microfinance products. The International Institute offers microfinancial services to first-generation citizens and immigrants in the St. Louis area.

The second category of microfinance institutions are small-scale, community-specific microfinance loan funds. Microfinance institutions in this category include the Helping Hands Bank, Women's Healing Hearts Bank, and the other programs funded by the Incarnate Word Foundation. Whereas the three prior institutions aim to serve large populations of clients and expand operations, these small-scale institutions often aim to remain small and serve a select few number of people. Objectives are often niche and specific to the local area, and target clientele are members of the same community. Many of these organizations base their services and loans on trust and face-to-face interactions, rather than more formalized methods of applicant evaluation.

The third category of microfinance institutions include organizations and businesses that provide microfinance services in addition to traditional financial services or other offerings. Organizations in this category include the Midwest BankCentre and St. Louis Economic Development Partnership, as well as certain other for-profit and non-profit organizations. Although certain products or services may involve microfinance principles, they are not hallmark products, and often account for a very low share of business compared to other products and operations.

Figure 1: Product Offering by MFI, 2019

MFI	Business Microloan	Consumer Microloan	Credit-Building Loan	Savings and/or Checking Account	Individual Development Account	Financial Advising
Justine Petersen and GRCC	x	x	x			x
International Institute	x		x		x	
Prosperity Connection and RedDough Money Center		x				x
Midwest BankCentre	x	x	x	x		x
St. Louis Economic Development Partnership	x					
Center for Acceleration of African American Business	x					x
Healing Hearts Bank		x				
Women's Helping Hands Bank		x		x		

Figure 1 lists every identifiable and currently operating microfinance institution in the St. Louis metropolitan area, as well as the specific microfinance product they provide. Data is sourced from organization websites, personal correspondence, and recent public reports.

Figure 1 shows that there is a wide range of microfinance programs and offerings in the area. Some programs extend a portfolio of multiple microfinance products, while others specialize in certain products.. The most common microloan products among MFIs are business microloans and consumer microloans. Nearly every organization bundled financial advising and coaching with their other services. Although the largest organizations often displayed their financial product metrics through public reports, many of the smaller organizations did not have publicly available information. Even fewer disclosed performance data, but representatives gave testimony on program performance. Due to the limited information available for many

MFIs, this table is not a complete picture of the microloan environment. However, it is likely that non-reporting MFIs do not represent a large number of microloans in the area during this time.

Figure 2: Client Use of Products by MFI, 2019

MFI	Business Microloan	Consumer Microloan	Credit-Building Loan	Savings and/or Checking Account	Individual Development Account	Financial Advising
Justine Petersen and GRCC	540	541	Undisclosed			Undisclosed
International Institute	23		102		25	
Prosperity Connection and RedDough Money Center		977				1,278
Midwest BankCentre	Undisclosed	Undisclosed	165	236		2,830
St. Louis Economic Development Partnership	Undisclosed					
Center for Acceleration of African American Business	Undisclosed					Undisclosed
Healing Hearts Bank		Undisclosed				
Women’s Helping Hands Bank		Undisclosed		Undisclosed		

Figure 2 identifies the volume of each microfinance service provided. Data is sourced from annual reports and organization websites.

Figure 3: Microloan Performance by MFI, 2019

MFI	Number of Loans Disbursed	Average Loan Size	Total Loan Disbursed
Justine Petersen and GRCC	1,081	$6,736.83	$7,282,517
Prosperity Connection and RedDough Money Center	977	$636.54	$621,904

Figure 3 details the performance of all microloan products offered by respective MFIs. Data has been calculated from annual reports and information disclosed by representatives.

Outreach, Poverty Alleviation, and Other Social Outcomes

The largest microfinance programs in the area have been able to reach a wide audience of low-to-moderate income, unbanked, and underbanked borrowers, as well those who also have been subject to racial injustice. In 2019, MFIs were able to extend loans to over 2,000 recipients, and extend financial advising to over 4,000, and nearly all of this outreach was led by Justine Petersen, Prosperity Connection, and the Midwest BankCentre. Smaller MFIs account for a relatively insignificant amount of this impact. Two-thirds of Justine Petersen's lending in 2019 was to black businesses, although the organization did not specify how much of this amount was specifically microlending, and every other program surveyed shared a similar focus.

Much of this success can be attributed to an extensive history of positive consumer interactions. Very few MFIs conduct any form of advertising, instead relying on word-of-mouth to attract new clients. In this sense, as Gondolfi notes, lack of demand is not a limitation for St. Louis' microfinance programs - rather, the ability of microfinance organizations to expand and capture this demand is a main limitation.

A minority of clients in the region use microloans for microentrepreneurship, although it is not an insignificant amount. Far more use microloans for consumer use or to build creditworthiness, with many MFIs citing microloan use by clients to cover transportation costs, job training, education, and personal emergency situations. Microloan use appears to be varied: some generate new, direct sources of income for clients, others subsidize requirements for indirect income sources, and the remainder cover gaps in existing cash flows. Few microfinance institutions provide an "all-in-one" experience for clients, and instead specialize in certain types of products.

A general reliance on traditional methods of creditworthiness may exclude the credit invisible from immediately accessing financial services. For this population, some MFIs instead provide credit-booster loans that establish credit scores for invisible clients to be able to eventually qualify for loans. As such, the poorest of the poor in the region may have to wait for their ability to access financial services, seemingly counterintuitive to the purpose of many microfinance institutions to provide access to capital to excluded populations.

Still, nearly every MFI appears to have generated overall positive economic development for clients that utilize their services, showing improvements in both financial metrics, including incomes, credit scores, and/or asset purchases, as well as indirect measures like individual empowerment, confidence, and financial literacy. However, a lack of information and long-term client tracking makes program analysis one-sided, and it is difficult to gauge the impact of MFI programs on negative client metrics such as overindebtedness. Similarly, a lack of an identifiable control group makes comparative analysis of MFI impact difficult, and the degree to which microfinance is responsible for client improvement is not clear.

Despite the apparent benefit for clients, microfinance programs likely only serve a small portion of the impoverished community in St. Louis. If the Federal Reserve's numbers hold true, over 800,000 of the city population lives below the federal poverty line, and microfinance programs can only serve less than once percent of this population per year. Microfinance use may result in positive social outcomes, but it is extremely limited in impact.

Access to credit and financial services alone does not solve poverty for clients, but it is a useful tool that gives poor borrowers greater agency, and helps to bridge the gap between racial groups. Predatory lending is crippling for the poor, but the ability to borrow at rates equivalent to more advantaged and higher income populations reduces credit risk to normal levels for clients. While missed payments may still hurt, a fairer rate prevents the borrower from slipping into deep debt that a payday loan would cause. Similarly, the credit building opportunity that microlending provides mirrors the more available credit building opportunities that more advantaged groups have. The "level playing field" that fair financial service provides removes financial barriers to entry for historically marginalized borrowers and allows for previously unattainable financial freedom and, and is one fundamental aspect of decreasing the racial prosperity gap. However, while

microfinance removes barriers to entry for impoverished and historically underserved individuals and gives many previously unattainable financial freedom, these services must be accompanied by smart financial decision making for a client to escape poverty and build wealth. Similarly, although microfinance raises the floor for income inequality, the ceiling and wealth redistribution must come from other systems. Other support systems must come into play to counteract the historic disenfranchisement of many impoverished communities, a requirement that microfinance alone cannot fill. As Gondolfi summarizes, “Poverty is multifaceted and in addition to access to capital, there obviously needs to be other support systems.” (Gondolfi, personal communication, 2021).

Risk Management, Loan Performance, and Other Financial Outcomes

Every major MFI does not maintain operational profit. Grameen-style microfinance, in the sense of group lending and alternative means of collateral and risk evaluation, is almost nonexistent among St. Louis microfinance institutions. Social capital in the region is extremely low, especially among borrowers who have little in common except the need for financial services. One explanation for this is the existence of welfare programs and livelihood alternatives that reduce the necessity of cooperation for survival. Because clients are able to secure basic necessities through federal, state, and local welfare programs, there is no inherent need to rely on access to capital to merely survive. In comparison, many in developing countries must work together and trust another’s abilities to collectively ensure their livelihood. For this reason, alternate methods of risk management that rely on codependence simply would not provide the same success as in developing world programs, rendering them useless. Prominent MFIs instead use traditional means of credit evaluation and loan tracking that are expensive to operate.

Loan performance seems to vary between different microloan products, but few organizations were willing to disclose comparable performance metrics. Every MFI charges clients interest rates on microloans significantly lower than necessary to profit at those risk levels. Every organization shares a focus on benevolent lending practices, which often sacrifices revenues from high interest rates in favor of rates more equivalent to those imposed on the average person. Similarly, each program shares a common enemy in predatory payday

lenders, and aims to provide financial services that do not cripple borrowers in the event of delinquency or default. Prosperity Connection is the only lender that charges interest rates high enough to break even, at 120% per year. Although significantly higher than other microloan products, this rate is still much lower than what predatory lenders charge.

Some small-scale and community-specific microfinance programs are able to operate at a profit, despite charging lower rates than necessary. These programs more closely resemble Grameen-microfinance, relying on trust and personal evaluation for program applicants. Still, these programs serve incredibly small populations, and face extremely limited opportunity to expand beyond their home communities.

Program Self-Sustainability and Other Administrative Outcomes

Nearly every institution maintains an intentional operational loss in favor of client benefit. Most institutions also share a high touch model of serving clients - notable examples include one-on-one coaching sessions, incorporating clients into lending structures, and perpetual availability of organization personnel to clients - which increase transaction and operational costs. As a result of these structural decisions, no major MFI in St. Louis is able to operate self-sufficiently and must rely on external subsidy. The nature and objectives of most organizations make independent operation impossible. The few organizations that have achieved operational self-sustainability are still reliant on overhead and administrative support, and have a limited ability to grow without external subsidy. The most common sources of direct funding are local bank branches, business foundations, and charitable contributions from non-profit organizations. Similarly, many institutions receive administrative and overhead support from partner organizations. Dependence on external sources of funding places microfinance institutions at the whim of their funders and their own financial performance.

Multiple institutions referred to funding and the cost of capital as their main limitation in expanding further. Because virtually every organization operates at a loss, organic expansion is impossible. Capital is limited, and institutions simply do not have any capacity to take on more clients, no matter how large the potential volume. With their current administrative and program structure, expansion can only come from

external sources. Unless organizations develop efficiencies within their existing structure or change the methods in which they operate, microfinance in St. Louis has reached a stalemate.

It is also clear that these organizations also lack a standardized reporting system for their products. Publicly available information regarding microfinance performance largely seems to be at the discretion of the institution. As such, there is likely a bias towards only making positive information available, while hiding any information that may indicate programs are not successful. Information may also not be available from some institutions because of staffing limitations, particularly among smaller institutions.

Comparison to the US Microfinance Environment

Like many researchers have concluded about microfinance in the United States as a whole, microfinance in St. Louis provides a positive but limited impact on poverty alleviation. St. Louis microfinance institutions largely face the same limitations and challenges as other programs across the nation. MFIs in St. Louis are not able to adopt cost-saving measures found in programs overseas that capitalize on strong social ties to counteract risk. Unwilling to sacrifice client wellbeing for profitability, microfinance institutions rely on external support to operate. Limitations on organic program growth, scalability of operating structures, and dependence on partnerships prevent widespread outreach and adoption of programs.

Still, microfinance is a tool that satisfies a previously unfilled need for many impoverished populations. Clients benefit from their newfound access to financial services, gaining the ability to make use of incomes without fees as well as develop and maintain credit histories that allow large asset purchases to be possible. However, smart client decision making and other support systems must accompany this newfound access to financial services for clients to secure long-term financial wellbeing.

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