

Microfinance Matures Opportunities, Risks, and Obstacles for an Emerging Global Industry

Microfinance is on its way to becoming mainstream. This transition creates tremendous opportunities for the service providers involved and, more importantly for the millions of people who will, as a consequence, newly have access to financial services. Yet the shift is neither inevitable nor without risks.

While the volume of microfinance services is clearly growing rapidly, the numbers obscure the unevenness of services provision when considered both geographically and from the standpoint of quality. Estimates of the worldwide number of microfinance borrowers range from 30 to 152 million. Yet markets in many countries, including giants such as Brazil and China, remain untapped relative to those in others, such as Bangladesh. Furthermore, many of the clients included in these figures lack access to an adequately tailored or diverse set of services, including not only credit, but also savings, insurance, and payment products. As a consequence, for most of the world's low income populations, access to financial services remains either non-existent or substandard.

New applications of technology—improvements in back-end processing and integration with cell phones, ATMs, and the Internet—combined with the entry of large new players, such as major banking institutions, are justifiably creating significant excitement in the field of microfinance. Yet a possibility exists that the resulting disruptions within the industry will ultimately diminish, rather than

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enhance, the effectiveness of microfinance in achieving greater economic inclusiveness at a global scale. This essay seeks to summarize the opportunities, risks, and obstacles that face microfinance at this critical time of transition. We also discuss factors that we believe can, and we hope will, lead to improving both the reach and quality of microfinance, notable among these being a policy and regulatory environment favorable to microfinance and insulated from political interference.

From its beginnings in the 1970s, microfinance has evolved a grand vision in which all people across the globe who need savings or credit have access to high quality financial services. Such services provide one powerful tool in the global fight against poverty. Low income and poor families can use financial services to improve their quality of life, protect against risks and invest in the future. In the process of building the institutions to supply these services, societies can open their economies increasingly to the less advantaged portions of their population.

As microfinance grew, especially throughout the 1990s, it began to become clear that this grand scale vision could one day become reality. Today, we can optimistically predict that in the coming decade the promise of microfinance will be substantially achieved. However, the road to fulfilling this promise is not without significant challenge and uncertainty.

THE SCALE OF MICROFINANCE TODAY

We are beginning to understand the scale of financial services for low income people today, but cannot definitively determine how many people are being reached. There are several competing data sources, all incomplete and most based on self reporting. Each database reveals something slightly different about the scale of supply.

The Microfinance Information Exchange (MIX) collects data from leading microfinance institutions (MFIs) that are able to produce and willing to release complete financial statements.² These institutions generally consider themselves part of the microfinance community and may be thought of as the core of microfinance, with exceptions noted below. MIX data for 2004 shows a worldwide total of 30 million borrowers served by 675 organizations.

The Microcredit Summit publishes data on numbers of borrowers and includes institutions that are not direct providers of financial services, as well as data from some public sector development banks.³ It estimates for 2004 a worldwide total of 92 million active borrowers, a difference from the MIX of 62 million. Half of this difference (31 million) is explained by the Summit's inclusion of two self-help group (SHG) movements in India that promote the formation of traditional women's savings and credit groups.

Much of the rest of the difference between the MIX and the Microcredit Summit is due to the Summit's inclusion of government-run programs, such as the National Family Planning Coordinating Board of Indonesia, the Vietnam Bank for the Poor and the Nigeria Agricultural Cooperative and Rural Development Bank. Such programs account for 16 million of the difference. Finally, the Summit has a

few more programs reporting from South Asia, where numbers reached are often large, while the MIX has greater coverage of Latin America.

A broader view of finance for the poor comes from the Consultative Group to Assist the Poor's (CGAP's) survey of Alternative Financial Institutions (AFIs).⁴ The definition of an AFI includes many institutions that would not consider themselves part of the microfinance community, but which serve lower income clients, especially public sector banks. The AFI study found 3,000 institutions and reported 152 million total current borrowers. While this number appears to be much higher than either the MIX or Microcredit Summit figures, nearly half of that total comes from public development banks in two countries, China (31 percent of total) and India (16 percent), and it is not entirely clear that these borrowers would be considered part of the microfinance target group. Only one third of the total (50 million borrowers) in the CGAP study came from self-identified microfinance programs.

Comparison of these three databases reveals a surprising consistency, despite the differing totals. There is a core group of microfinance institutions reaching roughly 30 to 50 million borrowers. The core group includes banks, finance companies, NGOs and other types of institutions.⁵ About 400 to 500 institutions form this core, although there are another 2,000 to 3,000 small institutions serving fewer than 2,500 borrowers each and making a negligible contribution to global aggregates. Another 25 million people are involved in the Indian SHG movement, and finally, millions more are served by government-owned institutions (especially in Asia), which are not directly associated with microfinance, but which do reach substantial numbers of lower income people. Credit unions play a minor role overall (about seven percent of the MIX total) but are very important in certain countries.

These numbers reflect borrowers below the poverty line in their countries, as well as near-poor borrowers who are slightly above it. While some institutions reach lower income segments than others, the overall figures incorporate low income borrowers, including those who rise above the poverty level and continue to borrow from microfinance institutions.

Rough as these borrower numbers are, they are probably more accurate than the numbers available on savings. Of the three databases, only the CGAP survey examined savings accounts. It found 573 million savings accounts globally, of which 318 million were in post office savings banks. Self-identified microfinance institutions (MFIs) reported 104 million accounts, 18 percent of the total. There is no way of determining how many of these accounts are active.

Turning from supply to demand, we can only speak in the most general terms. While it is easy to determine that demand is much greater than current supply, estimates of demand reflect guesses rather than data. Experts consulted for this paper generally agreed that worldwide total demand numbers at least several hundred million families.

Related to the calculations of future demand are several social and economic trends that make it safe to assume that informal economic activity, the major

Region (# of MFIs)	Active Borrowers (Millions)	Share of All Borrowers (%)	Loan Portfolio (US\$ Millions)	Share of Total Portfolio (%)	Average Loan Balance (US\$)
Africa (85)	3	10	\$965	11	\$322
S. Asia (94)	16.3	57	\$1,334	15	\$82
E. Asia (44)	4.7	16	\$2,218	24	\$472
LAC (94)	3.2	11	\$2,708	30	\$846
MENA (23)	0.8	3	\$236	3	\$281
Eur. & Cen. Asia (37)	0.7	2	\$1,682	18	\$2,420
All MFIs (378)	28.8	100	\$9,143	100	\$319

Table 1. Current Scale In Microfinance

Source: MIX.

source of employment and income for poor households, will continue to grow in most developing countries.

Among the most important of these factors are:

- the high percentage of youth in the demographic make-up of many low-income countries;
- the inability of formal economies to absorb new entrants into the labor force;
- the limited education and skill formation of large segments of the population; and
- the continued rural migration into the cities.

Self-employment will remain the most common occupation for hundreds of millions or even for billions of people, the bulk of whom will be women, and they will need access to capital to run their businesses.

QUESTIONS ABOUT SCALE

As a prelude to considering the future of microfinance, let us pose some key questions about scale.

How Does Supply Vary Around the World?

Microfinance has not developed evenly across regions. In each region microfinance has distinct characteristics that reflect the nature of regional population and economies (see Table 1). South Asia accounts for the largest outreach, followed by East Asia, Latin America and Africa. MFIs in the Middle East and North Africa (MENA), and in Eastern Europe and Central Asia reach the fewest clients. In the MENA region there are not yet many MFIs. Average loan sizes show striking regional differences, ranging from less than \$100 in South Asia where poverty is deep and microfinance has been aimed at very poor people, especially women, to

Microfinance Matures

Country	MFIs		Total Portfolio (US\$ Millions)	Borrowers (Thousands)	Average Loan Balance (US\$)	Borrowers / Population	Total Population (Millions)
	Banks & NBFIs	NGOs, Credit Unions, Other					
Bangladesh	1	43	995	13,600	73	9.20%	147
Mongolia	2	0	135	228	592	8.10%	3
Bolivia	5	4	437	391	1,117	4.40%	9
Bosnia	7	4	372	183	2,034	4.10%	4
Cambodia	9	0	145	479	302	3.50%	14
Nicaragua	1	9	112	192	583	3.40%	6
Peru	14	9	970	884	1,097	3.10%	28

Table 2. Countries with High Microfinance Penetration

Source: MIX.

Country	# of MFIs		Total Portfolio (US\$ Millions)	Borrowers (Thousands)	Average Loan Balance (US\$)	Borrowers/Population	Total Population (Millions)
	Banks & Non-Bank Financial Institutions	NGOs, Credit Unions, Other					
China	No MFIs reporting to the MIX						1,313
India	6	20	160	1,620	99	0.10%	1,095
Indonesia	1	5	1,816	3,158	575	1.30%	245
Brazil	2	0	43	173	248	0.10%	188
Pakistan	3	9	81	530	152	0.30%	166
Bangladesh	1	43	995	13,600	73	9.20%	147
Russia	1	1	273	54	5,064	0.00%	143
Nigeria	1	2	4	186	24	0.10%	132
Mexico	3	3	137	465	295	0.40%	107

Table 3. Microfinance in Large Countries (Population over 100 Million)

Source: MIX.

about \$850 in Latin America, where poverty is not as deep in absolute terms (few people live under \$1 per day) and microfinance has a microenterprise development focus; to over \$2,000 in Eastern Europe, where incomes are significantly higher.

The picture becomes even more diverse when we compare the market penetration in smaller and larger countries. Within regions, some countries, most of them relatively small, have highly developed microfinance sectors (see Table 2), while the large countries tend to show lower penetration. Bangladesh stands out as an exception on all fronts, as a large country in terms of population with many MFIs and extraordinarily small average loan sizes. With nine percent of all people in Bangladesh counted as microfinance borrowers, the penetration of microfinance in Bangladesh exceeds that of all other countries. The nine percent in Bangladesh could be seen as an upper bound for very large national penetration of microfinance. This figure reflects the early start Bangladesh got in microfinance, as well as

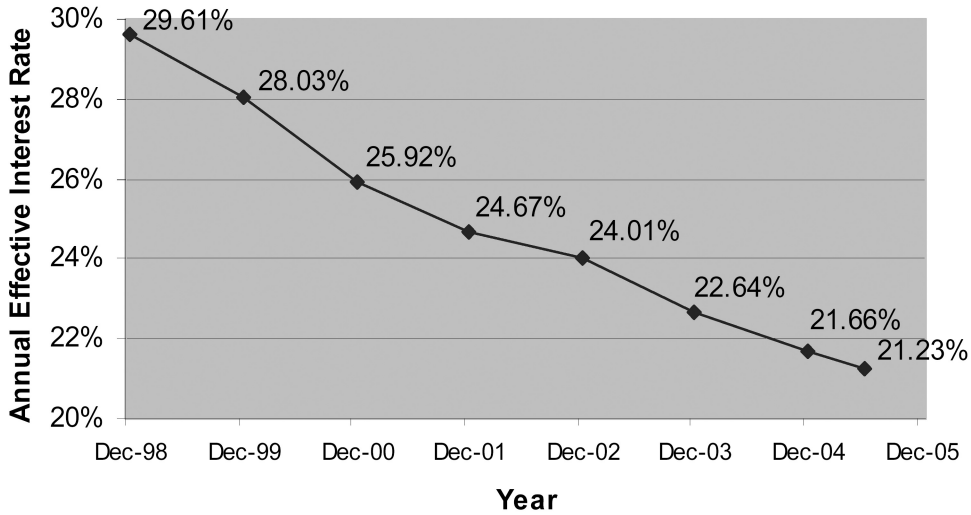


Figure 1. Interest Rates on Microfinance Loans in Bolivia: 98-2004

the high percentage of the population living in circumstances that make them potential microfinance clients. Other countries shown below also have significant market penetration, and the capacity for microfinance to continue growing. It is notable that aside from Bangladesh most of the countries with high penetration are dominated by bank and finance company providers of microfinance, reflecting policy environments that have been supportive of microfinance integration into the financial sector.

The biggest gaps in meeting demand occur in some of the largest developing countries: Brazil, Mexico, China, India, Pakistan and Nigeria. Bangladesh and Indonesia are the only large countries with high or moderate penetration. To achieve the same moderate level of penetration as Indonesia, India would have to add 12 million clients; Nigeria and Russia 2 million each. It is interesting that most microfinance in the large countries, with Bank Rakyat Indonesia and Banco do Nordeste in Brazil as notable exceptions, is provided through NGOs. Policymakers in large countries have generally been less willing to support the integration of microfinance into the mainstream.

There are major differences between urban and rural supply of financial services, with rural supply still representing a major challenge in most parts of the world. The rural population is hard to reach because it is in remote areas or spread thinly over a large territory. Microfinance products have focused on working capital for trade or business, rather than for agricultural production. Expansion into rural areas is especially important because of the generally higher incidence of poverty in rural areas.

BancoSol (Bolivia): From Mono to Multi-product

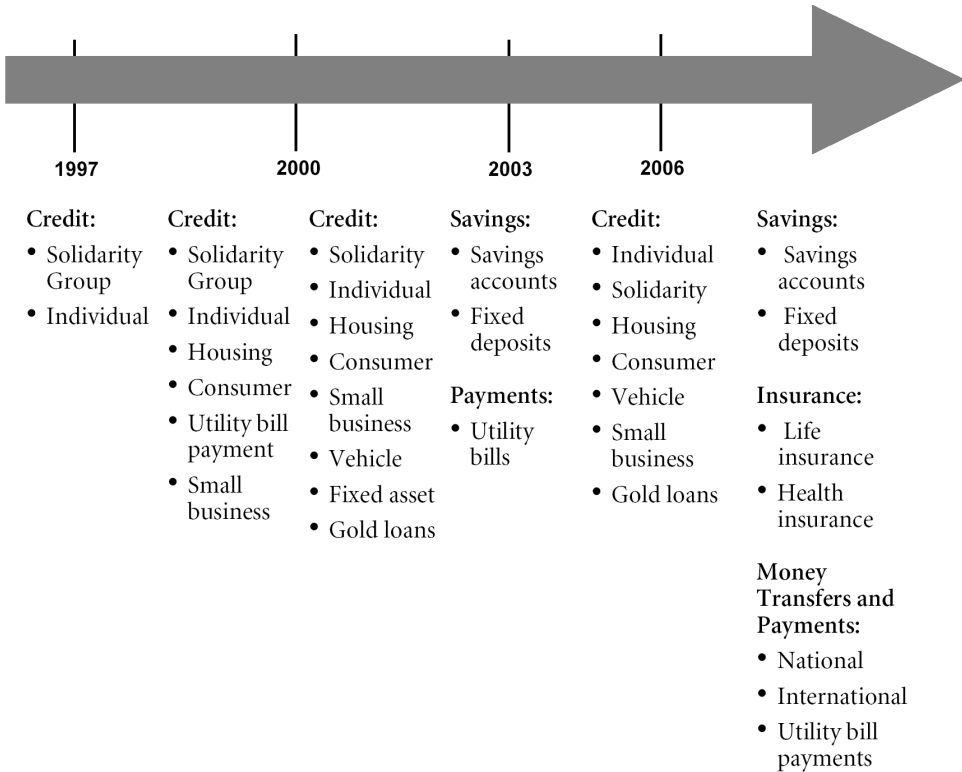


Figure 2. BancoSol: Diversified Product Offering (1997-2006)

How fast is microfinance growing, and is it on a track to meet demand within the next decade?

Both the MIX and the Microcredit Summit report strong supply growth during the past several years. Although some of this growth is due to increased reporting, much of the growth is real: from both existing institutions and new entrants. Growth is particularly fast in certain segments of microfinance, such as regulated MFIs. A Council of Microfinance Equity Funds study found an annual increase in borrowers of 95 percent among shareholder-owned MFIs during the past two years alone, due to both growth of existing institutions and entry of new ones.⁶

Major international microfinance networks are also experiencing rapid growth. For example, during the past five years, the number of borrowers reached by ACCION partners and affiliates has increased an average of 33 percent per year. FINCA programs have grown at an average rate of 22 percent and Opportunity International at 31 percent over the same period.⁷ If sustained by these and other microfinance organizations, growth would indeed meet demand during the next

decade. If its recent growth rate keeps up, the ACCION Network alone could reach 40 million people by 2016 and all three networks would reach over 60 million. General experience with growth patterns and the law of large numbers suggests a tapering off of growth. But in microfinance, there is reason to believe that entry by new institutions, and especially new types of institutions using new technologies, will keep the total rate of expansion high for some time to come, provided policy environments for microfinance do not deteriorate. The likely effects of new entrants are discussed in the next section.

How big is the quality gap?

What the scale and growth numbers fail to show is the quality gap. For an individual client, the quality gap is the difference between the services received and an array of well-designed and delivered services that fit the client's needs. A person who receives only a single loan product in a rigid group format cannot be said to have the same quality of service as someone who has access to a custom-tailored loan, savings services, insurance and money transfers, especially if these services are delivered in a flexible way, at a convenient location, and without absorbing too much of the client's time and trouble. At present, many of the clients included in our outreach totals face an enormous quality gap.

At a global level, the quality gap represents the sum of these individual gaps: all those people who have access to very limited and low quality financial services but are nevertheless counted among the success stories of microfinance outreach. The tracking of client numbers in the microfinance industry has focused on borrowers reached, without regard for quality. Going forward, the quality gap should be considered an integral aspect of the scale question. In fact, as microfinance succeeds in touching more people, we expect its focus to shift towards quality issues. We return to this issue in the discussion of products and services later in the paper. With this brief review of the current state of scale and quality in microfinance, we turn now to the forces that will shape its future.

THE DRIVERS OF CHANGE AND THEIR CONSEQUENCES

Microfinance is affected by powerful change-producing forces. We focus on drivers of change already present to varying degrees across the globe, which will continue to evolve and markedly change the way microfinance operates in the next decade. These drivers are: competition, commercial entry, changes in financing, technology and the enabling environment.

Driver 1. Competition: Better Products; Lower Prices

Competition has been a fact of life in microfinance for several years in countries such as Bolivia, Nicaragua, Bangladesh and Uganda. In other countries, it is just beginning. Competition puts consumers in a position to demand better products and services with lower prices. For that reason, competition has the power to force

Institution Type	Number of Institutions	Active Borrowers (Millions)	Share of All Borrowers (%)	Loan Portfolio (US\$ Billions)	Share of Total Portfolio (%)	Average Loan Balance (US\$)
Banks	47	9.2	33	5.1	56	558
Credit Union	27	0.7	2	0.6	7	889
NBFIs	87	4.6	16	1.6	18	341
NGOs	196	13.9	49	1.6	18	117
Rural Banks/ Other	21	0.4	1	0.2	2	427
Total	378	28.8	100	\$9.1	100	

Table 4. Microfinance Scale by Institution Type; Calculations by Authors using MIX Data, 2004

MFIs to rethink and reform.

Bolivia provides an illustration of microfinance under competition. Its microfinance sector has been competitive for nearly a decade. In Bolivia, clients can choose from several microfinance institutions. They have become price sensitive, and this competition has driven interest rates down from an average of nearly 30 percent in 1998 to 21 percent at the end of 2004 (see Figure 1 on p. 96).

To offer lower prices, Bolivian MFIs have faced enormous pressure to become much more efficient and to broaden their product mix to include larger loans. BancoSol increased productivity, reduced costs, and increased loan terms to bring its operating expense ratio from the high teens in the late 1990s to the single digits today, a rate once considered unreachable.

As competitive conditions spread to other countries, competition will exert the same kind of pressure toward efficiency. With the help of another of our four drivers, technology, the cost of delivering tiny loans will eventually drop to little more than that of commercial banking. This process will greatly challenge those institutions that are unable to incorporate these efficiency gains.

A final effect of competition is greater client choice. When clients have more bargaining power, they ask for products and services that meet their needs more effectively, and microfinance institutions respond. For example, in the past few years, BancoSol diversified its product offerings dramatically in response to competition (see Figure 2 on p. 97).

Driver 2. Commerical entrants

Competition will be heightened as the mix of providers of microfinance services in 2016 will diversify greatly from the current blend, which is shown in Table 4.⁸

Today, NGOs are the largest group of providers with the deepest outreach (measured by loan size to the lowest income people). However, the prevalence of

NGOs in the global totals is largely due to the scale of microfinance in Bangladesh and to the predominance of NGOs there. Outside of Bangladesh, NGOs serve 26 percent of total clients, banks 36 percent and finance companies 30 percent.

Formal financial institutions are increasingly important, and the percentage of services delivered by banks is increasing over time. This is not surprising because of the banks' capacity to leverage their capital and grow their operations.

Among the banks that do microfinance seriously today, there are three distinct types: the specialized banks that focus on microfinance, such as Mibanco in Peru and K-REP Bank in Kenya, many of them with NGO origins and strong social mission; the mainstream banks for which microfinance is one of several lines of business, such as Banco Caja Social in Colombia and Banco de Pichincha in Ecuador; and the state-owned development banks for which microfinance is a public mandate, like Bank Rakyat Indonesia and Banco do Nordeste in Brazil.

By the end of the next decade there will be a wide variety of service providers (see Table 5). Many types of institutions will contribute the innovations that will take us through the next ten years. NGOs, for example, will be social innovators, while regulated MFIs are likely to innovate in the financial products area. Most services will be delivered by formal financial institutions. Respondents were nearly unanimous in suggesting that the field will move strongly toward regulated financial institutions. Most respondents in our study believe that the transformation of NGOs to regulated MFIs will also continue through the next decade.

What may not be as obvious, however, is the likely entry by new banks that are not now among the largest microfinance players. Throughout the next decade, banks of several types—specialized and mainstream; domestic and international—will come to dominate microfinance in terms of numbers of clients and amount of loans and deposits. Commercial banks, termed “downscalers,” bring important advantages. In addition to having vast infrastructure such as branches, tellers, and IT, they also have access to abundant, low-cost funding. They are in a good position to benefit from synergies between microloans and other services they already offer, such as money transfers and credit cards.

Many of these banks will integrate microfinance into their ongoing commercial retail lending. Whether through a specialized company, a separate unit, or multipurpose branch, the banks will not differentiate this portfolio from the rest of its financial transactions, except to understand its viability and profitability.

Today there are enough banks involved in microfinance that their experience provides strong hints of what is to come. For example, local and regional banks will most likely be better equipped to integrate microfinance into their portfolios. Large international banks may be better at providing finance to other banks, MFIs or NGOs, using gradually more sophisticated financial instruments. The increasing engagement of banks may come in waves, as the banking industry worldwide gradually learns how to implement and generate returns from microfinance services.

Today in Latin America and Africa, forward-looking local and regional banks have already begun to provide retail microfinance, whereas in India, banks are

Microfinance Matures

Type of Provider	Current Status	Advantages/Disadvantages	Future Role
Traditional MFIs			
NGO	Most numerous group, especially in MENA, South Asia; Many in process of transformation; Deep outreach	Social mission, focused on poor, close to customer, non-financial services/high cost, smaller outreach, limited access to resources	Smaller role overall; more focused on poorest, non-financial services; testing high cost/risk products <i>social innovators</i>
Specialized MF Bank or Finance Company	Strong providers, many post-transformation NGOs, growing rapidly	Knows microfinance customer; financially sound, increasing access to finance, product innovators/lacking deep pockets for investing in future; higher cost	Major leaders in MF; must adapt to competition; will incorporate new private shareholders <i>product innovators</i>
Credit Union	Important deposit-takers; still lagging in loans	High trust by members; low cost structure/governance issues, lack of resources for investment	Niche players; will have to modernize to survive; important in rural areas
Public Sector Bank	Massive deposits; urban-rural money transfers; rural outreach	Widespread branch networks, social mandate/sluggish, subject to political capture	Increased efficiency through competition with private banks; high volume basic services
Commercial Entrants			
Local and Regional Banks	Active entry in Latin America; active as wholesalers in India; Major deposit-takers	Access to funds, good infrastructure, market recognition; agile/weaker in competition with big banks; thin management and governance; variable commitment	Increasing involvement as competition in financial sector continues; <i>service innovators</i>
International Banks	Limited involvement; see MF as part of CSR	Financial, human and technology resources; established brand and market position/hard to connect locally; do not know microfinance market; not agile	MF will be standard part of retail operations; may acquire microfinance through mergers or acquisitions
Consumer Lenders	Spreading worldwide; some consumer lenders trying microfinance; interest in buying MFIs	Know-how in financial service delivery, automation and technology, channels to customers/ Lacking social commitment	Integrated microfinance and consumer finance, massive scale; <i>technology innovators</i>
Big Box Retailers	Spreading throughout developed world; entering financial services in developed world, a few entries into microfinance	Channels to customers through infrastructure and database, known in marketplace, resources for investment/lacking social commitment; finance not main focus	Mass providers of services; will have banking licenses; <i>delivery innovators</i> Could include telecommunications companies.

Table 5. Current and Future Roles of Microfinance Providers by Type

engaging mostly as wholesalers, on-lending to MFIs. One example of how quickly banks can reach scale with microfinance comes from Peru, where local mainstream banks, such as Banco de Trabajo, have become keen competitors in the microfinance arena. According to the MIX data, Banco de Trabajo is now the largest provider of microloans in Peru, with nearly 200,000 clients. Eventually, the giant international banks will become involved, possibly by purchasing successful MFIs. We are already aware of numerous examples of mainstream banks offering to buy MFIs.

A new category of entrant, only beginning to emerge, are consumer lenders of two types: consumer finance companies (GE Finance, Citi Finance) and so-called big box consumer retailers that are beginning to provide financial services (Walmart, Elektra, Tesco). These corporate players have the potential for massive outreach through their connections with consumers. They use techniques that lend themselves to scale, such as credit scoring. Their interest is not limited to traditional consumer finance, once they see the potential of microfinance. The concept of the “fortune at the bottom of the pyramid” has captured the imagination of many companies and is driving them towards financing the poor.⁹

Elektra in Mexico has formed Banco Azteca, which allows it to offer one-stop retail and financial services. Banco Azteca already numbers the microenterprises it finances in the hundreds of thousands. A related group of entrants will be large companies that add credit to their services to reach more clients, especially low-income ones. CEMEX, a global cement company based in Mexico, provides loans to low-income clients so that they can build their own one or two-room houses. This program has similarities to supplier credit and could have enormous reach given CEMEX’s international footprint.

The new entrants will continually challenge traditional MFIs, whether NGOs or regulated finance companies or credit unions. Nevertheless, there will be niches for all kinds of providers, even in very competitive markets. To succeed, they must stay close to the customer, provide flexible products and excellent customer service, and develop clear channels to the capital markets for funding.

Commercial entry challenges existing microfinance providers to re-evaluate their relevance in light of changed circumstances. In particular, it challenges them to re-invigorate their social mission. Socially motivated microfinance providers may decide to redouble their efforts to reach the very poor, to advocate for consumers rights within the newly inclusive financial sector, or to develop products to serve unmet social needs.

The right conditions for rapid entry by new commercial players are now present in the marketplace: demonstrated profitability, business models that can be copied, and competencies for working with low income populations. The history of financial sector innovation suggests that once such conditions are present, spread can be very rapid. Change will not necessarily occur in the orderly way one might like, and the largest changes may not come from the expected sources. Consider, for example, the potential to amass large volumes of customers quickly when big box retailers like Tesco in the United Kingdom or Elektra in Mexico begin

offering financial services. Or consider the implications for scale of telecommunications companies offering payments services by cell phone text message.

Driver 3. Diversifying Sources of Financing

As microfinance reaches greater and greater scale, its financing requirements grow apace. The need for ever-increasing access to funding has driven major transformations in microfinance away from donor dependence to commercial sources. The transformations that will take place in the next few years will provide microfinance institutions with permanent access to plentiful sources of funds, from sources including savers, and local and international capital markets.

1. Debt Financing

Commercial sources, including deposits, will provide nearly all the debt and equity needed to fund microfinance. Banks already have access to plentiful funding through deposits and the capital markets; as their role in microfinance grows they will draw on these resources for financing.

Specialized microfinance providers have made great strides in accessing the capital markets to fund their portfolios. For example, the bond issues by Compartamos/Mexico, WWB Cali/Colombia, and Mibanco/Peru, which were bought by institutional investors such as pension funds and insurance companies, represent the savings of ordinary people. Local market bond issues have the advantages of avoiding foreign exchange risk for the institution and of strengthening local capital markets. The degree to which the local capital market has developed will affect an institution's capacity to tap into it. In Mexico, for example, Compartamos enjoyed a well-developed financial system which responded effectively to its various bond issuances. One can expect that as capital markets evolve from infancy in a growing number of countries, these opportunities will expand for microfinance. Additionally, one can expect that microfinance institutions will issue paper in international bond markets, where the enhancements now necessary for this type of paper will slowly decrease and disappear.

Rating agencies, such as Standard & Poor's, Fitch and other raters recognized worldwide, are beginning to regard microfinance institutions as a new market for their work. Over the next decade, these raters will integrate microfinance institutions into their portfolio of activities. Their capacity to generate risk assessments and ratings that adequately address the characteristics of microfinance institutions will play an important role in the extent to which microfinance can tap local and international bond markets and in capital markets in general.

Specialized providers have also been successful in capturing savings deposits, which in the future will serve as the most important source of funding for microfinance institutions. Some of the most advanced microfinance institutions already fund their loan portfolio mainly with savings deposits. We can expect that these institutions and others will develop additional savings products geared to the general public, which will not only increase their access to funds but will also improve their standing in their countries as trustworthy and financially viable banks.

New ways of engaging the capital markets will develop, which will create exciting paths to additional resources. These are difficult to predict, particularly because the capital markets themselves will change and evolve considerably. We have already seen the first steps into securitizing microfinance, with private placements and wholesale purchases of microfinance portfolios taking place in India. The recent BRAC issue of securities in Bangladesh has advanced microfinance securitization because the securities did not remain with the sponsor bank, as in previous so-called securitizations in India, but were passed on other investors. We can expect more such instruments to develop, making securitization a standard tool for raising funds in microfinance. Once these tools are developed, capital will flow from both local and international markets and will integrate whole new groups of investors into microfinance.

Socially responsible investors have become key players in providing financing to microfinance; they are the pioneers opening the way for more traditional investors to engage with this sector. The many debt funds created by social investors, mostly in Europe and the United States, will continue to grow. But gradually, they will yield to institutional investors, such as international banks and insurance companies that will launch multi-million or billion dollar debt funds for microfinance.

2. Equity and Ownership

Specialized microfinance institutions will face additional challenges in attracting private sector owners. The major sources of equity for microfinance institutions will progress along a continuum that will over time see a decrease in the presence of public sector investors and an increase in that of private sector sources. Public sector investors, such as the bilateral and multilateral development banks, have been playing a very important role as strategic investors in microfinance and have exercised that role using commercial principles. In the last decade, they have channeled their investments both directly and through equity funds. The performance of the early equity funds—ProFund and IMI—has led to a proliferation of equity funds. The Council of Microfinance Equity Funds, organized in 2003 as a means of best practice development for this emerging sector, currently has 22 equity funds as members.

These early experiences have gathered considerable learning about investing in microfinance and about the returns one can expect. They have laid the groundwork to attract a growing number of private players made up of investors that seek both a social and a financial return. The experience of these pioneering private investors is currently paving the way for microfinance to access mainstream capital markets.¹⁰ Once they do, the range of investors in microfinance will be democratized so that ordinary people will be able to support microfinance through their own investments.

A review of the data available on current equity investors in microfinance, as compared to those three years ago, gathered by the Council of Microfinance Equity Funds, provides several interesting trends that we believe will continue to evolve in

the future:

- Public investors will play a role in equity for a longer time than in debt. In both, commercial sources will replace them. Some recent data shows that their role in relation to the presence of private investors may be starting to decrease. For public investors this trend would be welcome since it is their stated intent to open the way to attract private sources of capital;
- There are more private investors, which include an increasing number of management and employee stock options;
- Private investors, both local and international, are increasing their role as equity holders. International investors invest primarily through equity funds while local investors invest directly in the microfinance institution;
- Socially responsible investors will retain a significant role as shareholders in microfinance institutions.

NGOs will continue to play an important role as key investors. Their role has been to ensure that microfinance institutions remain true to their original mission and perform on social and financial returns, the famed double bottom line. Some will continue to demonstrate a higher tolerance for risk and be strategic investors in institutions that appear too risky to other investors. Others, in particular microfinance networks, will deploy two ownership models: one that gives them a majority position in select microfinance institutions which they control, and one that makes them minority investors in institutions into which they bring other private investors. To the extent that these NGOs are professionally managed, financially sound, and effective in playing their governance role, they will remain important equity players in microfinance sitting side-by-side with private investors.

Some will argue that the presence of NGOs, which lack discernable owners, as equity holders, will create considerable difficulties in privatizing microfinance, and may even deter private investors. This negative outcome can occur when NGOs resist the entrance of private investors and effectively crowd them out, even if the presence of stronger private sector investors with the experience, resources, and commitment to the objectives of the institution could benefit the long-term goals of the institution. As microfinance becomes increasingly competitive, NGOs that prohibit private investors will most likely damage the institution's overall reach in its market. At this time, there are still issues that are not fully resolved about the joint presence of NGOs and private investors in the same institution. The institutions that will be best equipped to address microfinance in the next decade and beyond will be those that open themselves up to include well-selected private investors as significant or majority shareholders.

We will also see the presence of large commercial banks as investors seeking majority ownership positions in microfinance institutions and integrating them into their overall financial activities. There have already been such serious attempts by international banks, which are demonstrating special interest in Latin America, and it is likely that these will intensify.

The first Initial Public Offerings (IPOs) in microfinance have taken place in the

Innovation	Current status
Payments	
<p>Mobile phone payments: cell phones become electronic wallets, using SMS technology</p>	<p>Philippines: Globe Communications and SMART have introduced cell phones to store and transfer electronic cash for payments. Being introduced to Rural Bankers' Association of Philippines.</p> <p>Kenya: M-PESA has partnered with Vodafone, Faulu-Kenya (local MFI), and CBA (local bank). The M-Pesa system supports money transfers, cash withdrawal and deposits at retail outlets, and disbursement and payment of loans.</p> <p>South Africa: the Wizzit banking facility allows low income account holders to use their mobile phones to remit money to a friend, buy airtime, or pay accounts.</p> <p>Latin America: Motorola recently unveiled M-Wallet, a downloadable software application that allows users to pay bills, purchase products, and/or transfer money using their cell phones. The company is targeting the remittance market between the U.S. and Latin America.</p>
<p>Electronic payment systems: deposits and withdrawals through plastic cards at ATM machines and at participating merchants. Debit, credit and prepaid cards</p>	<p>Guatemala: FINCA and VISA are piloting the use of pre-paid cards for loan disbursements by partnering FINCA Guatemala and Nicaragua with VISA member banks.</p> <p>Peru: Mibanco has become a VISA member bank, and has introduced VISA products including: MiAhorro (a savings account with debit card) and the VISA Empresarial card which can be used at ATMs as a credit card, all launched in 2006</p>
<p>Point of sale devices (POS): installed at local retailers, allow clients to make withdrawals and deposits closer to home</p>	<p>Uganda: Uganda Microfinance Limited is piloting the use of POS devices to extend rural outreach.</p> <p>Senegal: FERLO is piloting a similar POS initiative.</p> <p>India: ICICI and SEWA bank are conducting a pilot whereby loan officers use POS devices at group meetings.</p> <p>Colombia: 45 cooperatives with different core banking systems are using a single POS solution.</p>
Innovation	Current Status
Core System	
<p>Management information systems for client tracking</p>	<p>USA: the Microfinance Open Source (Mifos) project established by the Grameen Technology Center is pursuing the development of a management information system using Open Source Framework.</p> <p>India: FINO, an initiative of ICICI Bank, is a private company established to provide outsourced MIS services to MFIs, including core banking system and distribution set up.</p> <p>Andean Region: ACCION has coordinated an effort by BancoSol (Bolivia), Banco Solidario (Ecuador), and Mibanco (Peru) to create a unified credit methodology supported by a common MIS with technology by BanTotal.</p>
Credit Underwriting	
<p>PDAs assist in on-site credit assessment</p>	<p>Latin America: At Banco Solidario (Ecuador), loan officers use Pocket PCs to conduct loan evaluation on site with client; at BanGente (Venezuela), they use PDAs.</p>
<p>Credit Scoring assists in automating credit decision</p>	<p>Credit scores are being used for specific MFIs, but generic credit scores are not yet used and credit scoring has not been used to re-invent lending methodologies</p>

Table 7. New Technology Introductions for Microfinance

last two years, the first by BRI in Indonesia, and recently by Equity Bank in Kenya. Both have democratized share ownership and are opening the way for other leading MFIs to join them. We can anticipate considerable movement towards IPOs in microfinance and predict that by the end of the coming decade publicly traded shares will become an important component of overall MFI ownership.

3. The Role of Donors and Philanthropy

Donors, especially the new breed of private philanthropy, will continue to play an essential role in the next decade. Their work must be done in the context of the increasingly important role played by the private sector, and should seek to expand the presence of private sector players as debt and equity providers of microfinance.

The role of public donors, who made possible the pioneering efforts of microfinance and also funded its growth, has already evolved away from financing of basic operations and loan portfolios. Instead, they will focus on those areas essential to the further development of microfinance but that still require some level of subsidy. They include the following areas:

- information dissemination: to expand the knowledge of best practice and of the most recent innovations;
- building the capacity of microfinance institutions, regulators and supervisors;
- supporting microfinance that reaches very poor, rural and remote clients;
- innovation in product development and use of technology, some of which will also be privately financed;
- developing the standards for the industry by financing its infrastructure - such as ratings initiatives, technology standards and credit bureaus;
- overall economic development; and operation in vulnerable states (chronic war-torn states).

Driver 4: Technology

The technologies to transform microfinance already exist. Among the available technologies are magnetic stripe and chip (smart) cards, point of sale devices, ATMs, cell phones, satellite communications, the internet, credit scoring, data mining, biometric recognition and more. Wizzit, for example, is a telecom/financial services company in South Africa that allows customers to complete financial transactions through cell phones. These technologies will require microfinance institutions to redesign their business models and educate their employees and customers to master new ways to deliver and receive services. Such changes will not always be easy, but the benefits will be dramatic. They include greater convenience and lower cost for customers, ability to reach more remote customers, and increased security. Innovation in technology will occur in three main areas: payments, credit underwriting and back end systems. And even while we work to apply existing technologies to microfinance, those technologies will themselves evolve, changing the way the financial system operates and making possible things we cannot envision at present.

Breakthroughs in the use of technology require that microfinance institutions

have already incorporated technology thoroughly into their operations. To date, technology in microfinance has served to manage information, that is, primarily on the back end. MFIs with strong MIS can standardize their operations, produce timely and transparent financial reports, and report on their operations as otherwise needed. These attributes will be *sine qua non* for future microfinance institutions, as only institutions with strong core banking systems will be able to take advantage of new technologies, especially connections to multi-bank payment systems.

While wider application of technology will reinvent microfinance, its incorporation will not be smooth for all. The wide variety and disparity in quality and design of existing back end software used in microfinance will delay the introduction and deployment of front end and other uses of technology. Additionally, new technologies will require fundamental changes in the way an institution relates to its clients, which to date has consisted of high cost, high touch contact, and such changes will most likely be met with both internal and external resistance.

Technology is the wild card in microfinance. Because the potential of technology is so revolutionary, and the applications still so young, we can only guess at the face of the future. Nevertheless, we can predict that within a decade microfinance clients will use cashless banking through cell phone payments, ATMs, internet and card products. These changes will bring greater security and convenience at lower cost.

Many technology innovations are beginning to be applied to microfinance (see Table 6). Each innovation addresses one of three main aspects of the microfinance business process:

Credit methodologies. Credit decisions will be automated as lessons from consumer lending and credit scoring are blended into microfinance and as credit bureaus are developed in each country. This process will be hastened if consumer lenders develop enterprise-oriented microloans, because these lenders have already mastered automated lending techniques. The drive toward automated credit decisions will challenge the traditional central role of loan officers as the main connection to clients. Consumer lenders use a “credit factory” approach with several people performing segments of the microfinance loan officer role. Microfinance will have to decide whether to embrace automated lending. In the immediate future we will see more experiments with modified loan methodology that still use loan officers but increase their efficiency through the use of PDAs, cell phones and credit scoring.

Back end processing. Better core information systems will enable MFIs to focus on the customer and to offer customers automated payments and customized products. Over the next decade the cost of basic core systems should drop dramatically, and smaller MFIs should be able to access off-the-shelf packages for a reasonable price. More advanced institutions wishing to offer automated payments will need systems that are “interoperable” so that they can connect to other multi-institution payment systems. Open source projects may have an important role in promoting simple standard packages and interoperability. Another possibility is

that core information systems are outsourced to IT service providers through the internet.

Automated payment technologies include mobile phones, ATMs, internet payment processors like PayPal, and smart cards. With automated payments, clients can go cashless, which is more secure, and financial institutions can eliminate or cut back on expensive branch infrastructure, possibly leading to lower interest rates and fees for clients. Payments will be made in locations convenient to the client—grocery stores, pharmacies, or over the phone. In many countries the prerequisites underpinning these payment systems have not been established, but most of these issues will have been solved by the end of the next decade.

We have noted several times that the challenge of reaching rural areas will remain one of the hardest and most important gaps in the future. Payment technologies may offer prospects here, as they promise deeper penetration at lower cost.

Driver 5. Policy and Regulatory Environment

Microfinance can only progress if the enabling environment is supportive. The policy environment will determine which regions and countries will close the demand gap most successfully. The trajectory of the policy and regulatory environment in many countries has until recently been from state-controlled and distorted financial markets toward more liberalized financial markets. This reform has been good for microfinance. Microfinance has flourished in settings where the government did not follow directed credit policies, allowed interest rates to be market-determined, kept credit allocation separate from politics, and was not itself involved in direct lending. In some countries, special microfinance regulatory frameworks have been very helpful, supporting the particular needs of microfinance institutions in countries like Uganda, Indonesia, Peru and Bolivia. This trend is under threat in some places, however. Some governments want to turn back the clock, implementing interest rate caps, and politicians increasingly see microfinance as an attractive target for their attentions. Because scale brings high visibility, actions to restrain or interfere with microfinance are more likely to appear in exactly those countries where microfinance grows fastest.

The Importance of Enabling Environments

A policy environment need not be perfect to allow for growth in microfinance, and the seeds of microfinance can be sown even in immediate post-conflict settings. However, fully realizing the vision we have outlined requires governments to make the right choices in their stance toward the overall financial sector and microfinance in particular.

Policy environments in counties around the world span a wide spectrum, and there are distinct regional variations. Latin America has taken a more private sector approach in the past, while East Asia has favored state-owned solutions. There is also a great deal of country-by-country variation within regions. We group

countries into three tiers, each increasingly conducive to the kind of progress we envision.

The first tier (basic minimum countries) meets the minimum conditions for microfinance: political and economic stability and market-determined interest rates. Many countries in MENA and Africa fall into this group.

A surprising number of countries do not even make it to this tier. Among the countries that have no or only one MFI reporting to the MIX, most are either state-controlled economies that have historically not allowed microfinance institutions to emerge (such as China, Belarus and Cuba) or countries suffering from war or unrest (such as Ivory Coast, Congo, Iraq and Sudan).¹¹ Microfinance will spring up when stability and a market-oriented economy exist, even if these conditions are fragile. We profoundly hope that in the next ten years more countries will enjoy these basic conditions. This will be determined by factors far beyond microfinance.

In the second tier of countries (good ground rules countries), where microfinance is developing more actively, governments provide at least some of the ground rules that favor financial sector development and microfinance. In these countries, the consensus is that the government should be a facilitator but not a participant in the financial sector. The principle that credit decisions must be made without political interference is fundamental. Governments refrain from using the financial sectors as means of financing its own spending, thus freeing financial sector resources for private uses, including microfinance. The legal framework recognizes property rights, and court systems uphold secured transactions. The financial sector is overseen by a strong and independent bank regulatory and supervisory authority. Most of the countries that have liberalized their financial systems during the past decades have established these conditions, or are well on their way to doing so. At this level, although the government may do very little to explicitly recognize microfinance, it can survive and grow. The fact that most countries in Latin America have offered at least this kind of passive support is one reason for the development of strong MFIs in the region.

During the next ten years, the chief question at this level is whether the commitment to liberalized financial sectors will continue. The will to continue enforcing positive ground rules is threatened in some countries.

The third tier (active support countries) is the smallest but have the best enabling environments. These countries have taken a proactive approach to microfinance while applying best practices. In these countries a consensus makes broad access to financial services a goal of financial sector policy. These governments have entered a dialogue with the microfinance providers in their countries to chart pathways for development while maintaining high prudential standards. Their banking authorities have invested in learning about how microfinance works. Examples of what can result from such dialogue include the special microfinance categories created in Bolivia and Uganda that encourage NGOs to transform into regulated deposit-taking institutions. We are confident that at least a few key countries will join the active support tier of countries during the next decade.

New Challenges in the Enabling Environment

One of the important challenges of the next decade will be political risk—the interference of politics in microfinance in a way that hampers the continued development of the industry. As microfinance grows and becomes more visible, it attracts more political risk. Some populist governments are already calling for interest rate ceilings, launching new government microfinance banks, and bringing bank supervision back into the orbit of political leadership. The next ten years will see at least some countries go down that path, to the detriment of their low income populations.

Risks also arise when the microfinance sector has weaknesses that need correction. Two incidents from 2006 illustrate the problem. In Rwanda the central bank stepped in to close a number of weak MFIs. This move may have been appropriate on the part of the central bank, and it may strengthen the sector in the long run. However, in the near term it is likely to have negative effects on the image of microfinance in the country. In India, the local government of a district in the state of Andhra Pradesh closed the offices of two MFIs, citing interest rates that were too high and improper collections practices. Although the local government action was quickly overturned by the Reserve Bank of India, it sent panic through the Indian microfinance industry with some players reactively calling for voluntary interest rate caps.

Such events will only become more frequent during the next several years, and they call for vigorous action and forethought. The microfinance industry must engage in some soul searching to ensure that MFIs adhere to high standards of consumer protection, and to educate the public about the principles of fairly-delivered microfinance. In both instances cited, a positive dialogue with regulatory authorities was essential. If the microfinance field does not anticipate these kinds of issues and create strong standards for itself and a solid public understanding of best practices, it is likely that in ten years the sector will go through more painful episodes and end up with much heavier regulation.

Looking to the future, one of the main challenges facing regulatory authorities involves the introduction of innovations such as the new technologies described in the technology section above. These technologies are often outside existing regulatory frameworks, simply because they are so new. An example of regulators opening new channels is Brazil's program of correspondent banks, through which banks can appoint retailers as agents to carry out transactions, thereby extending the reach of the financial system to remote areas. Issues of security underlie the current debate in India over whether to adopt something like the Brazilian banking correspondents framework. Cell phone banking is one of the most obvious question marks because both potential and risks are enormous. Banking authorities will have to decide whether cell phone banking and other innovations meet minimum standards of safety and security, and they will need to work closely with providers to encourage them to bring their systems up to acceptable levels.

THE WIDER RAMIFICATIONS: WILL THE POOR BENEFIT FROM
MICROFINANCE'S NEW PORTFOLIO OF PRODUCTS AND SERVICES?

Microfinance has changed from a focus on a credit mono-product to a full array of financial services. The target market has broadened from microenterprises to the low income household, including both business and family needs. The microfinance field now recognizes that the financial needs of low income people are potentially as wide-ranging as those of the middle classes. However, the reality of service delivery today lags far behind the full service ideal. This observation yields a key concept for microfinance practitioners to consider: the quality gap. Closing the quality gap will be one of the most important tasks for microfinance during the next decade.

An ideal array of services begins with a basic core package: savings, credit, insurance and payment products (such as money transfers). Most households need some mix of these basic products, and for that reason, these services should be widely available. A full service MFI should offer such a package in a flexible manner that works for a broad spectrum of its low income clients.

Beyond the basics are specialized products that appeal to certain segments of the target population or to people at certain stages of their lives. For example, life cycle products might include education savings accounts or loans, home improvement loans, and pensions. There are specialized financial products for growing microenterprises or agricultural businesses: leasing, vehicle purchase, crop insurance. There are money management products like current accounts, bill payment and remittances.

While there will be microfinance institutions, mostly NGOs, which will focus their outreach exclusively on the poorest, most microfinance institutions will continue to reach the poor and the very poor, that is, those below the poverty line in their countries, but not in the lower half below the poverty line.¹² The increased role of commercial banks and non-financial institutions as channels of financial services will increase the focus on those hovering just below and just above the poverty line in their countries.

Nevertheless, banks and commercial microfinance institutions have demonstrated both interest in and capacity to reach lower income segments, especially if this approach opens new markets in which they will have a comparative advantage. Sogesol, the microfinance service company owned by the largest bank in Haiti, Sogebank, has recently rolled out a loan product, "Cash Rapide", seeking to reach even closer to the bottom of the poverty scale. Mibanco in Peru introduced the loan product "Chasqui," named after the famed Inca messengers, which starts at \$80 and has indeed opened a new market that its competition cannot reach. One could surmise that the competitive edge of microfinance institutions will play itself out in reaching increasingly poorer segments of the population, where first mover advantage could improve the MFIs competitive position.

Additional factors will influence how deeply into the poorest segments microfinance will delve. First, as levels of efficiency increase, the capacity to extend

smaller loans in a financially viable way will also increase. Considerable advances have been made in this regard in the last ten years as we have witnessed the costs of operation in relation to portfolio improve significantly. It is likely that we will see additional progress that will make reaching lower segments more financially possible for efficient microfinance institutions.

Second, as microfinance institutions seek to build a loyal customer base, they will turn to the lowest income borrowers as one way of capturing and retaining clients. Building a strong base of clients, even if initially at a loss, could in the long term be a preferred strategy that would lead microfinance institutions into serving poorer segments of the population.

The common thread that ties together the above factors is the application of sound business decisions related to financial viability, productivity, and market share. That these business considerations will prevail as the key factors should not be a surprise, since these are the same ones that have led commercial institutions into microfinance in the first place.

Some microfinance institutions, led by their owners, will seek to reach lower income segments to address corporate social objectives of importance to shareholders. Others MFIs, especially those transformed from NGOs, will be among those most likely to consider a social dimension as part of their mission, but such thinking could also extend to banks that enter this market. However, even these institutions will need to find financially viable ways to broaden their reach, since no shareholder will maintain a strategy that financially weakens the institution.

The degree to which microfinance can apply technology and develop new products for rural areas will have a lot to do with how low on the poverty scale microfinance institutions are able to reach. The predominance of the poorest in rural and remote areas will attract more and more NGOs to push ahead in serving these populations. Most likely, the challenges of reaching the poorest, especially with agricultural loans, will require some level of subsidy because microfinance has progressed so little in this area. NGOs will have the opportunity to play a very significant role in advancing this portion of microfinance, which for many will mean an intentional redefinition of their current vision and strategy regarding their role in microfinance.

While major advances will be made in reaching people who are currently unreached, including many very poor people, we expect that at the end of the decade there will still be a challenge to reach the poorest, rural and most remote clients.

The degree to which microfinance can apply technology and develop new products for rural areas will have a lot to do with how low on the poverty scale microfinance institutions are able to reach.

1. This article is based on a paper, “Microfinance through the Next Decade: Visioning the Who, What, Where, When, and How,” presented by the authors at the 2006 Microfinance Summit and follows from a 2005 study, “The Profile of Microfinance in Latin America in 10 Years: Vision and Characteristics,” Marulanda, B. and Otero, M., for the Regional Microcredit Summit in Santiago, Chile. These studies drew on published data sources and interviews with leading microfinance practitioners.
2. All data from the MIX comes from its website, <www.mixmarket.org>.
3. The 2005 State of the Microcredit Summit Report presents end of 2004 data on progress made toward the Campaign’s goal. <www.microcreditsummit.org>.
4. “Financial Institutions with a ‘Double Bottom Line’: Implications for the Future of Microfinance,” CGAP Occasional Paper Number 8, July 2004. <www.microfinancegateway.org>
5. Table 4 provides a breakdown of MIX data by institutional type.
6. Published Oct. 1, 2006 and available at <www.cmef.com> or <www.accion.org>. The Council of Microfinance Equity Funds was formed in 2003 by several founding members and is coordinated by ACCION International. Its membership of 16 equity funds meets twice yearly to address common issues.
7. Author’s calculation based on ACCION, FINCA and Opportunity International Annual Reports, 2000—2005.
8. The data in Table 4 and that in Table 1 are identical, cut into different categories. Annex 1 is also based on the same data.
9. Prahalad, C.K. (2004). *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Wharton School Publishing.
10. Among the leading private equity investors today are Gray Ghost Microfinance Fund, Andromeda Fund, and Unitus with MicroVest Fund moving into equity.
11. Many countries not on the MIX list are very small and lack a critical mass of clients (e.g., island economies).
12. The Marulanda-Otero paper on Latin America provided data that microfinance institutions, once regulated, continued to reach the same clients despite rising average loan size. The factors that contributed to the increased loan were: 1) long-term trustworthy clients obtained larger, longer-term loans; 2) the variety of products included some, such as home improvement, that were larger than working capital loans; 3) existing borrowers sought larger loans as their businesses grew; 4) institutions added small enterprises loans, which often constituted under 5 percent of total borrowers.
13. Table 1 data includes all MFIs in the MIX database with more than 5,000 borrowers. Another 297 institutions in the MIX database reach fewer than 5,000 borrowers each. These smaller institutions are excluded here. They account for only a total of 1.5 million additional borrowers.
14. Source: MIX. Note that in countries with high penetration of microfinance, customers may have loans from several MFIs, making double counting of customers possible.
15. Source: MIX.
16. Excludes MFIs listed in the MIX with fewer than 5,000 active borrowers.
17. <http://www.usaid.gov/our_work/economic_growth_and_trade/info_technology/tech_series/Rural_Connectivity_508.pdf>.
18. Excludes MFIs listed in the MIX with fewer than 5,000 active borrowers.