Armageddon or Adolescence?

Making Sense of Microfinance's Recent Travails

David Roodman

Abstract

The pendulum of public perception has swung against microfinance. That leaves the thoughtful observer, wary of extreme claims in any direction, with a puzzle. Is microfinance a bane or a boon or in between? This paper reviews the triumphs and troubles of the microfinance industry. It then sets forth a frame for assessing the impact of microfinance, one that helps put the recent challenges in perspective. And it offers some thoughts, in light of these difficulties, about key tasks going forward.

It concludes that microcredit stimulates small-scale business activity, but that the best available evidence fails to show it reducing poverty. Its ability to empower people, especially women, is also ambiguous. Still, there is no question that all people need financial services. The main achievement of the microfinance movement has been the founding of businesses and businesslike non-profits that are delivering these services to millions of people on a sustainable basis.

The core problem facing the industry is that just as a stable banking system is more than a bunch of banks, a microfinance industry is more likely to be safe and resilient if it contains not just microfinance institutions, but credit bureaus, consumer protection laws, effective regulators, and more; and many of these other institutions are weak or absent in poor nations. It is hard (though not impossible) for donors and social investors to improve them. Yet the stronger they are, the higher is the safe speed limit for growth of microfinance institutions. The weaker they are, the more that microfinance institutions will need to internalize limits on their behavior and growth.

Key steps may include giving those with an institutional commitment to the "social bottom line," such as representatives of non-governmental organizations, public agencies or social investors, a formal role in microfinance institution governance; creating systems for defining and enforcing responsible lending behavior; and building collective arrangements such as an international credit bureau to monitor and modulate aggregate investment flows into microfinance markets.

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Introduction

Speaking in India just after the government of Andhra Pradesh had ambushed the microcredit industry amid reports of suicide, Sam Daley-Harris observed that the movement he had done so much to build was undergoing a "near-death experience." Indeed, recent years have delivered harsh shocks to the global microfinance industry and to the broader movement that incubated and supports it. Microcredit bubbles have inflated and popped. "Successful" initial public offerings (IPOs) have sparked heartfelt debates about the proper balance between price and profit. Star academics have found the impact of microcredit on poverty to be merely neutral. New works in print and film have accused microcredit of impacts far worse than neutral, portraying the microfinance investment industry as morally corrupt.

Clearly the pendulum of public perception is swinging against microfinance. That leaves the thoughtful observer, wary of extreme claims in any direction, with a puzzle. Is microfinance a bane or a boon or in between?

There were good reasons why in 2006 the Nobel Committee awarded a peace prize to Muhammad Yunus and the Grameen Bank, with its millions of female owner-clients. Not for nothing did the United Nations declare 2005 the Year of Microcredit. For by then, the microfinance industry had stood up robust financial institutions delivering useful financial services to millions of deserving women and men who otherwise lacked access to such services. It had demonstrated that outsiders could help these institutions become financially self-sufficient. And as the industries have matured they have generally cut prices and diversified their offerings, in particular moving into savings. This success in building whole industries is rare in the annals of foreign aid and philanthropy. Meanwhile, a distinct industry has developed to channel at least a billion dollars per year of private investment into microfinance.[1] This investment helped finance an expansion from some 11 million microcredit borrowers worldwide in 2000 to 94 million in 2010.[2]

This paper reviews the triumphs and troubles of the microfinance industry. It then sets forth a frame for assessing the impact of microfinance, one that helps put the recent challenges in perspective. And it offer some thoughts, in light of these difficulties, about key tasks going forward.

Overall, microcredit does stimulate small-scale business activity, but going by the best available evidence, it does not reliably reduce poverty. Its ability to empower people, especially women, is also ambiguous since while it can give women more economic power,

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[1] Figure is net new commitments from individual and institutional investors based on author's analysis of CGAP Cross-Border Funding Surveys (Roodman 2012, p. 241).

[2] Author's calculations, based on data downloaded August 22, 2012. Figures exclude some large institutions that are heavily subsidized or up-market on the credit side: Banco Caja Social Colombia, Banco Popular do Brasil, Kenya Post Office Savings Bank, Khushhali Bank of Pakistan, Postal Savings Bank of China, and Vietnam Bank for Social Policies.

in some cases it has burdened them with the fear of default and loss of face in public group setting. Nevertheless, just as mainstream finance is essential despite its shortcomings, so are micro-financial services inherently valuable even when they do not help every client they touch. The greatest achievement of the microfinance movement has been the founding of businesses and businesslike non-profits that are delivering these inherently useful services to millions of people on a sustainable basis.

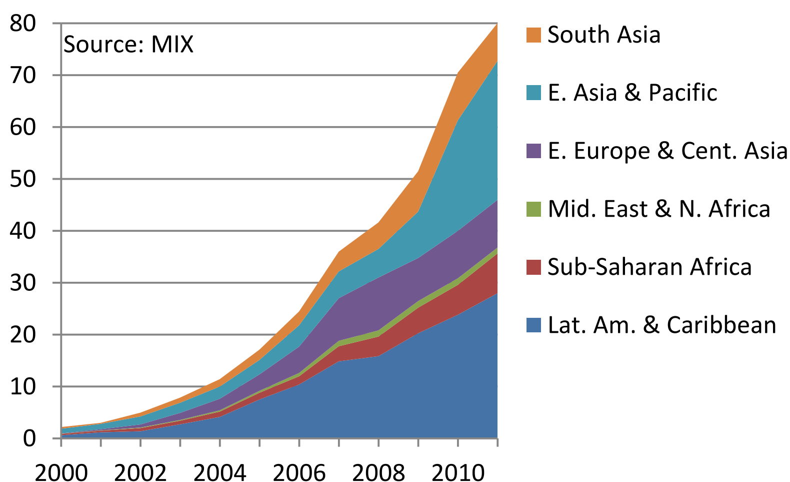
In this view, the greatest concern arising out of the recent travails is that in some places the industry has strayed from this core strength primarily by growing too fast. The result in some countries has been a collective eagerness to lend that has made microcredit less safe, and led to bubbles and political backlashes that damaged or destroyed microfinance institutions.

The core problem facing the industry is that just as a stable banking system is more than a bunch of banks, a microfinance industry is more likely to be safe and resilient if it contains not just microfinance institutions, but credit bureaus, consumer protection laws, effective regulators, and more. Many of these other institutions are weak or absent in poor nations (not to mention many rich nations). And it is not easy for donors and social investors to improve them. The stronger they are, the higher is the safe speed limit for growth of microfinance institutions. The weaker they are, the more that microfinance institutions will need to internalize limits on their behavior and growth.

The triumphs

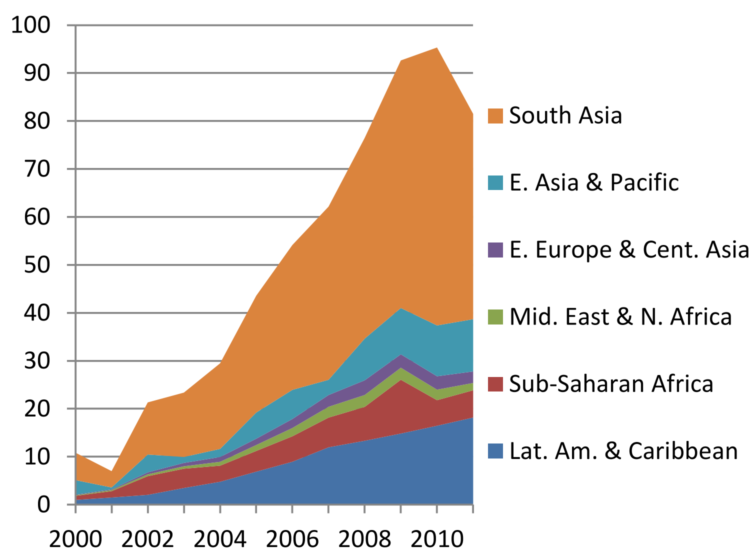
Since 2000, microfinance has expanded remarkably. Going by data from the Microfinance Information Exchange (MIX), total outstanding microloans rose from $2.2 billion in 2000 to $80 billion in 2011, a 37-fold increase overall, and equivalent to 39% growth per year. (See Figure 1.) Regions with higher GDP/capita—Latin America, Eastern Europe, and East Asia—accounted for most of this expansion because on average people there can absorb larger loans.

Figure 1. Billions in outstanding microloans by region, 2000–11



The trends in the total number of loans, rather than the total value, differ in a few ways, primarily because South Asia, where loans are small but numerous, moves to the fore. Worldwide, the tally climbed from 10.8 million in 2000 to 95 million in 2010, but then dropped to 81 million in 2011 because of the near shut-down of the industry in the Indian state of Andhra Pradesh.[3] (See Figure 2. Section 0 describes that event.) Less evident from the graph is the shrinkage in the Middle East and North Africa from 2.2 million to 1.5 million borrowers, which was driven by the implosion of the Moroccan industry, from 680,000 to 230,000 loans.

Figure 2. Millions of outstanding microloans, 2000–11



The arrival of microcredit as a major business can be measured in other ways. Half of outstanding microloans at the end of 2011 were made by microfinance institutions (MFIs) reporting operating expenses below 14% of the loan stock. (See Figure 3, which plots the distribution of outstanding microloans by lender's expense ratio.[4]) Fourteen percent exceeds levels typically found in conventional retail credit, but is lean given the administrative challenges of lending in small quanta to people operating in the informal economy.

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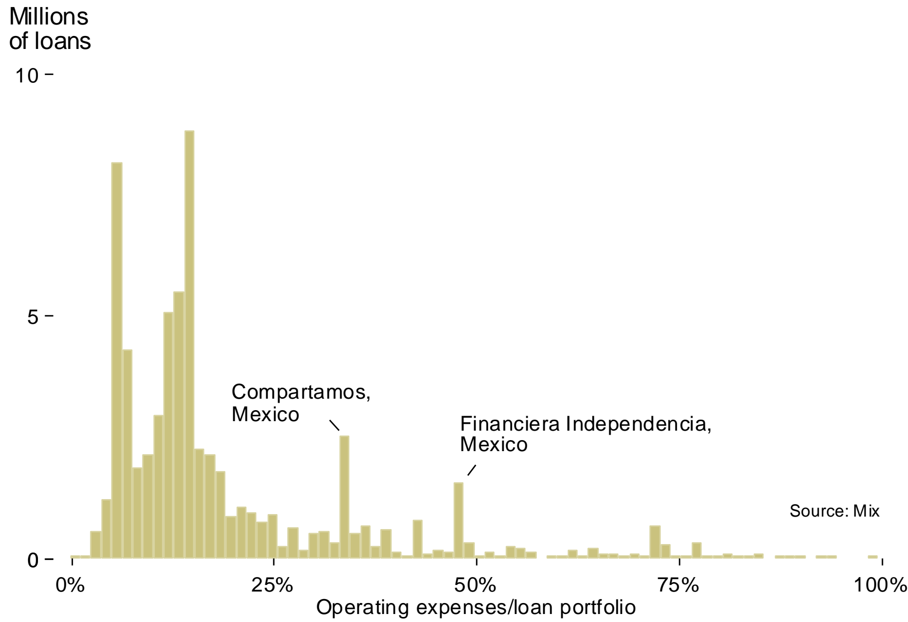
[3] These and subsequent graphs exclude some large institutions that are heavily subsidized or up-market on the credit side: Banco Caja Social Colombia, Banco Popular do Brasil, Kenya Post Office Savings Bank, Khushhali Bank of Pakistan, Postal Savings Bank of China, and Vietnam Bank for Social Policies.

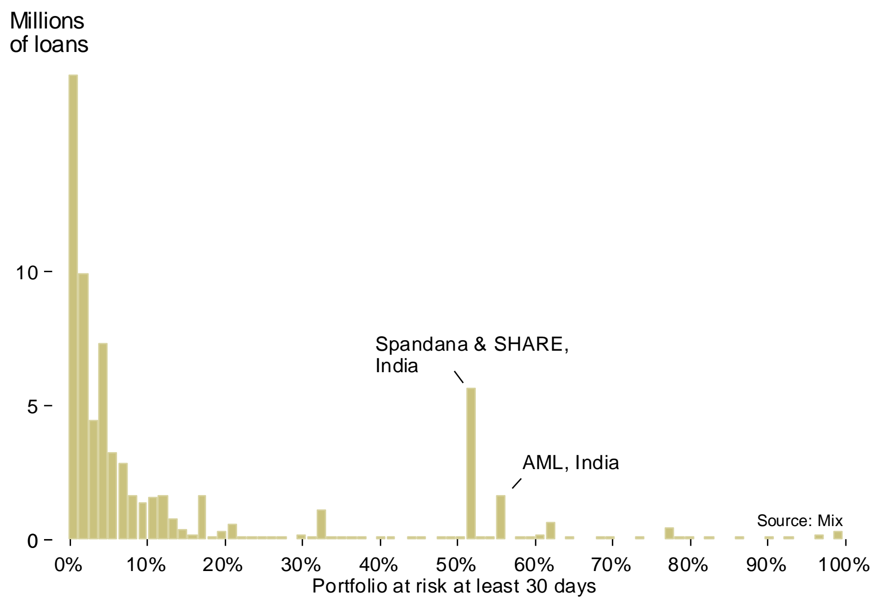
[4] This and subsequent graphs omit the Grameen Bank for lack of data and BRAC for lack of reliable data. For clarity, these graphs also omit a small number of institutions outside the plotted ranges.

Figure 3. Number of outstanding loans by operating expense ratio of MFI, 2011



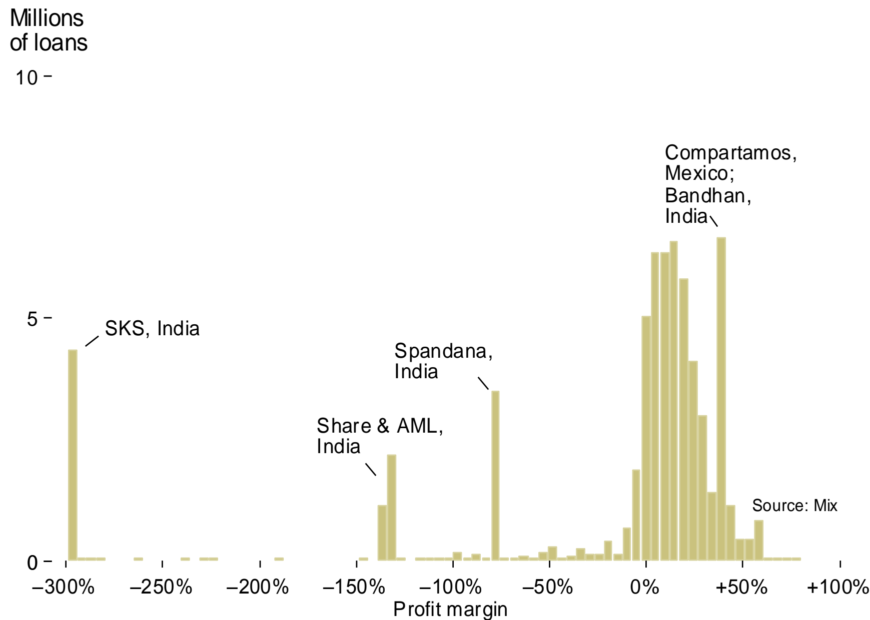
Outside of India, portfolio quality is generally high too. The share of outstanding credits on which payments are at least 30 days late (portfolio at risk, 30 days, or PAR 30) is generally low: half of all outstanding microloans at end-2011 were from MFIs with a PAR30 below 4% and three-quarters were from lenders below 10%. (See Figure 4.) The major exception is Andhra Pradesh, where Spandana, Share, and AML carried large stocks of delinquent loans on their books. (As a publicly traded company, SKS is subject to stricter accounting rules, and had already written off most of its Andhra Pradesh delinquencies).

Figure 4. Number of outstanding loans by Portfolio at Risk more than 30 days, 2011



The prevalence of efficiency helps explain why most microloans come from MFIs with positive profit margins (net operating income as a share of financial revenue, Figure 5). For most, weighting by number of loans, the profit margin lay between 0% and 25% in 2011.

Figure 5. Number of outstanding loans by profit margin of MFI, 2011



The story is similar if one examines return on assets (ROA;) or return on equity (ROE; Figure 7). Many major MFIs make 4% ROA or more, which is impressive by banking industry standards. The outliers on the negative end include the Andhra Pradesh MFIs, especially SKS because of large write-offs. High-ROE MFIs include Compartamos in Mexico at 34%, and India's Bandhan at 38%.

Figure 6. Number of outstanding loans by return on assets (ROA) of MFI, 2011

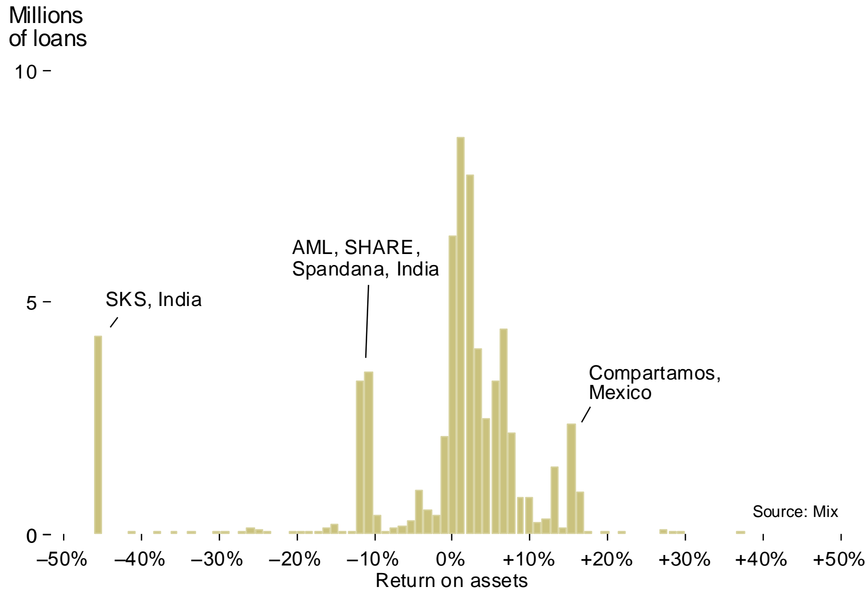
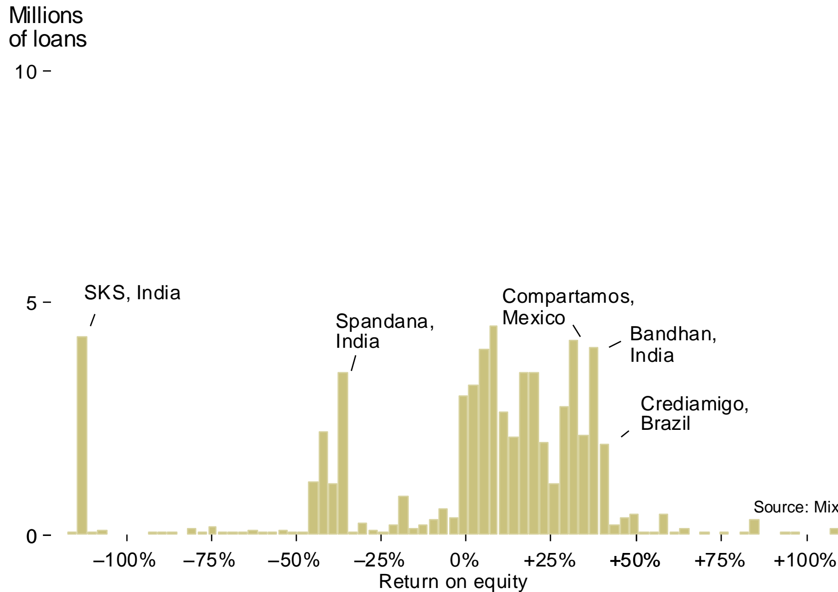


Figure 7. Numbers of outstanding loans by return on equity (ROE) of MFI, 2011

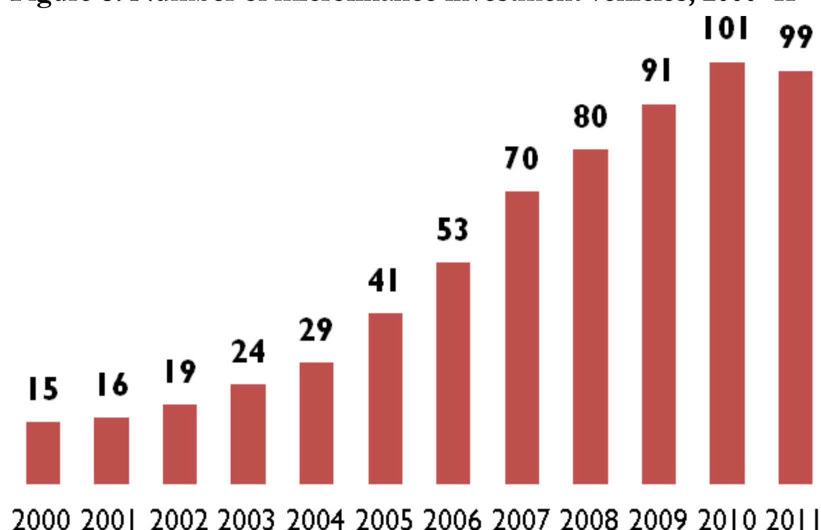


These figures overestimate the self-sufficiency of MFIs that obtain debt financing on favorable terms from socially motivated investors. Forced to operate on the same playing field as other firms of similar size and risk, their expenses would be higher and profits lower. That said, while the extent of the overestimate is hard to know, it is unlikely to fundamentally change the picture of the microfinance industry as operating under its own power. Financing costs are only about a quarter of operating costs for individual lenders, and about a sixth for the group lenders that serve most microcredit clients. If withdrawal of

grants and concessional investment elements doubled financing costs that would increase total costs by one-fourth to one-sixth.[5] Some of this cost increase could be offset by increases in efficiency or interest rates. Thus it seems likely that the majority of microfinance clients are served by institutions that are self-sufficient or within striking distance of being so.

The microfinance investment industry has grown too. The first dedicated microfinance investment vehicle (MIV) was Profund: founded in 1995, it focused on Latin America and turned a profit over its ten-year life. By 2000, 15 MIVs operated; by 2010, 101 did (Symbiotics 2012a, see Figure 8). However, three MIVs closed in 2010 and another nine followed in 2010, so that the total number of active MIVs fell on net in 2011, to 99.) While MIVs have invested predominantly in debt (more than 80% of their funding; Symbiotics 2012a), microfinance securities have become more variegated: there are direct loans, tradable bonds, equity, collateralized debt obligations, and more. Creativity in finance of course has its pitfalls; but the arrival of such tools marks a kind of maturation for the industry.

Figure 8. Number of microfinance investment vehicles, 2000–11



Microfinance has been most successful, in the business sense of expanding operations, in the domain of credit—but not only there. As for deposit-taking, the data are too spotty to plot trends reliably, but figures for a recent year suggest that many mature microfinance institutions are taking savings on a large scale. (See Table 1, a top-20 list of savings-takers in 2009, the last year with relatively complete data.) Bank Rakyat Indonesia looms over all, with more than 21 million accounts. The Bangladeshi big three (Grameen Bank, BRAC, and ASA) also cluster near the top. After them come institutions from elsewhere in South Asia, Latin America, and Sub-Saharan Africa. These include PRODEM in Bolivia, which along

[5] Cost figures from Roodman (2012, Table 5–2), which is based on MIX (2010). For a more refined analysis of the contribution of subsidies to profits, see Cull, Demirgüç-Kunt, and Morduch (2009).

with its urban cousin BancoSol (the two descend from the same non-profit), holds nearly 1.2 million savings accounts (MIX 2012)—that in a nation of 10 million people and perhaps 2 million households.

Table 1. Number of Voluntary Savings Accounts, Twenty Largest Account Providers, 2009 (most recent year with relatively complete data)

Name	Country	Accounts (thousands)
BRI	Indonesia	21,229
Grameen Bank	Bangladesh	7,970[1]
BRAC	Bangladesh	5,447
Equity Bank	Kenya	4,038
Caja Popular Mexicana	Mexico	3,514
Khan Bank	Mongolia	2,500
ASA	Bangladesh	1,324
Capitec Bank	South Africa	1,297[2]
UNACOOPEC	Cote d'Ivoire	925
Crediscotia	Peru	808[1]
BURO	Bangladesh	747
FECECAM	Benin	708
RCPB	Burkina Faso	673
ACSI	Ethiopia	612
CMS	Senegal	607
ACLEDA	Cambodia	586
PRODEM	Bolivia	568
WDB	Sri Lanka	555
BancoEstado	Chile	504
Sabaragamuwa	Sri Lanka	448

Notes: [1]Includes an unknown number of involuntary accounts, required as part of borrowing. [2]Number of depositors rather than accounts. Excludes the Banco Caja Social Colombia and the Kenya Post Office Savings Bank as institutions that do not emphasize financial self-sufficiency.

Source: MIX.

The microfinance movement has achieved notable successes over the last decade with another financial service, money transfers. The leading example is M-PESA, the extraordinarily successful phone-based system in Kenya. Run by a mobile telephone operator, M-PESA is not part of the microfinance industry as usually conceived. But it is part of the historical *movement*, for it began as a way to service microloan payments electronically (Hughes and Lonie 2007). And it embodies the dominant philosophy in the industry, that the best way to serve the poor is to operate in a businesslike, cost-covering

way, in order to scale up. In its first five years of life, M-PESA has grown to 15 million adults. To date, it has transferred some $15 billion.[6] No microfinance institution has ever grown so fast.

In sum, while certain failings of microcredit have become clear in recent years, and must be reckoned with, in assessing the industry's past and shaping its future, it is important to recognize its successes too.

The troubles

Despite all these achievements, the six years since the symbolic accolade of the Nobel Prize have been tough on the microfinance industry. ROE on investible MFIs fell from +20% at the end of 2007 to –5 % at end-2009 (Symbiotics 2012b). The first MIV closures occurred in 2010 and accelerated in 2011. The country with the most loans, India, saw a major microcredit setback; and the number-two country, Bangladesh, is witnessing a government take-over of its leading MFI. The tone of press coverage has flipped from positive to negative. Investment growth is slowing to the low single digits (MicroRate 2012).

Four principal challenges have emerged: rigorous academic studies on the impact of microcredit; public stock flotations that stoked controversy by arguably enriching a few investors and founders at the expense of the poor; coercive loan collection practices; and microcredit bubbles in some markets. Environmental factors also turned against the industry, including the global financial crisis and political antibodies in Nicaragua, India, and Bangladesh. But since the latter are complex and idiosyncratic and largely beyond the control of the industry, they will not be discussed in this short review.

Randomized impact studies

In 2009, the first two randomized studies of the impact of microcredit appeared. As discussed below, the studies' conclusions should not be devastating for microfinance. But the new research, by questioning the popular perception of microcredit as a powerful weapon against poverty, did cause negative press. "Perhaps microfinance isn't such a big deal after all," ran a headline in the *Financial Times*, for example (Harford 2009).[7] And bad press is a threat in itself.

One of the studies looked at group credit in Hyderabad, the capital of Andhra Pradesh; the other, individual loans in Manila. Neither new analysis found an impact on average poverty, at least within 12–18 months of availability (Banerjee et al. 2009; Karlan and Zinman 2011). "Poverty" is proxied in the studies by such indicators as number of children in school and monthly per-capita household spending. The Hyderabad experiment, however, did reveal a

[6] Squad Digital (2012).

[7] Harford went on to tweet: "Note to all microfinance enthusiasts: I DO NOT WRITE MY OWN HEADLINES," j.mp/WlHnR7.

stimulus to microenterprise starts, investment, and profits. Perhaps the profit increase did not measurably increase household spending because families devoting more time to business activities earned less wages outside the home. Or perhaps such translation did occur but outside the study's short timeframe. (A three-year follow-up is due out soon.)

Further studies in a variety of contexts—Africa, Europe, and Asia; for-profit and non-profit; rural and urban; individual- and group-based lending—have generally corroborated the findings of stimulus to microenterprise and lack of short-term impact on poverty (See Table 2). The diversity of the study settings makes it harder to argue that the 2009 results were anomalous. The burden of proof is now on those who would argue that microcredit in some form or in some contexts does reliably reduce poverty.

Table 2. Summary of results from randomized microcredit impact studies

Authors	Where	When	Female % of sample	Level of randomiz- ation	Credit type (group or individual)	Follow-up (months)	Investment/ enterprise	Wellbeing
Banerjee, Duflo, Glennerster, and Kinnan	Hyderabad, India	2006–08	100	District	G	12–18	+	0
Karlan & Zinman	Manila, Philippines	2006–08	85	Individual	I	11–22	–	0
Crépon, Devoto, Duflo, & Parienté	Morocco	2006–09	100	Village	G (mostly)	24	+	0
Attanasio, Augsburg, De Haas, Fitzsimons, & Harmgart	Mongolia	2008–10	100	Village	G, I	8–17	Group: + Individual: 0	Group: + food spending
Augsburg, De Haas, Harmgart, & Meghir	Bosnia & Herzegovina	2008–10	39	Individual	I	~14	+	Lower food spending

Source: Banerjee et al. (2009); Karlan and Zinman (2011); Crépon et al. (2011); Attanasio et al. (2011); Augsburg et al. (2012).

Initial public offerings and charges of "usury"

Initial public offerings (IPOs) of stock in MFIs have triggered larger earthquakes of controversy. In 2007, Mexico's Compartamos sold some 30% of itself to the public. The transaction valued the company at more than $1.5 billion (Rosenberg 2007), a financial prize owing almost entirely to the MFI's ability to charge poor women interest rates of 92–195%/year (Roodman 2011) and thereby earn an ROA of 18% and ROE of 39%.[8] While conceding that most of the capital gains went to the non-profit institutions that were

[8] The high number, unlike the low one, compounds the interest cost and factors in the potential indirect cost of a 10% savings requirement. Both numbers include value added tax.

Compartamos's main early investors—Accíon International and the World Bank's International Finance Corporation—critics have questioned the morality of earning such high profits off the poor. Compartamos co-founder Carlos Danel has defended the high profits as demonstrating the business viability of banking the poor.[9] But critics asked: if this is not usury, what is?[10]

The IPO of India's SKS in 2010 scored a full point higher on the Richter scale. Individual investors and venture capitalists, not non-profit institutions, reaped the capital gains. At the peak stock price, the stakes of founder Vikram Akula and billionaire venture capitalist Vinod Khosla were estimated at $90 million each (Chen et al. 2010). Although microcredit costs far less in India than Mexico—SKS charged 25–32% per annum (MF*Transparency* 2011)—SKS and other for-profit microlenders still came in for severe criticism for combining aggressive disbursement with aggressive collection practices.

Reports of abusive credit methods

In the months before the SKS IPO television channels in the company's home state of Andhra Pradesh began broadcasting stories of women forced, by the burden of microdebt, into prostitution or suicide. As in many countries, media companies in India tend to sensationalize to get attention, and sometimes in order to advance the political agendas of their owners. And in India, microcredit is political, because elected officials have long competed with each other to offer lower interest rates through government-run lending programs. One of those—the Self-Help Group (SHG) program—competes directly with microfinance.

Despite the suspect source, the stories of abuse proved hard to completely dismiss. An organization that helps administer Andhra Pradesh's SHG program compiled a list of 54 allegedly microcredit-linked suicides (SERP 2010). Bereaved family members told their stories to reporters, who captured them on video.[11] Allegations also emerged of loan officers visiting the homes of defaulters and publicly haranguing them to shame them into repaying. Suicides were evidently so rare among microcredit clients (a reported 54 out of millions) that the small loans may have *prevented* as many deaths as they caused, by giving a handful of cornered people a way to go on; but their stories will never be told on TV. Nonetheless, the stories of multiple borrowing, abusive collection practices, and frenetic growth of microcreditors taken over by investors looking for a quick exit were all signs that something had indeed gone seriously wrong in Indian microcredit. That belief appears shared by a majority of the microfinance industry, even SKS founder Vikram Akula (Hanna 2012).

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[9] Interview with author, June 24, 2008.

[10] See Yunus criticism in Keith Epstein and Geri Smith, "Compartamos: From Nonprofit to Profit," *BusinessWeek*, December 13, 2007.

[11] See for example "India's Microcredit Meltdown," Assignment, BBC, January 29, 2011, bbc.in/l6H2tl; and Tom Heinemann, "The Micro Debt," 2010, j.mp/UCwUE9.

What then do the suicides signify for microfinance? The combination of easy offers of credit and tough demands for repayment, enforced through public embarrassment of group meetings, probably put many Indians in a tough spot—perhaps only the minority of all borrowers, but far more than 54. The likely difficulties of this larger but less well-defined group cannot be dismissed as regrettable rarities.

Bubble troubles

The boom and bust in Andhra Pradesh did not follow the storyline of a classic bubble—one that implodes under its own weight—because the crash was brought about by sudden government action. Nevertheless, growth that in retrospect appears dangerously rapid, on the order of 100% per year, is an important element of the story. And Andhra Pradesh is not unique in this respect. Experts at CGAP documented and analyzed similar reversals in 2008–09 in Bosnia and Herzegovina, Morocco, Nicaragua, and the Punjab region of Pakistan (Chen, Rasmussen, and Reille 2010). Each case is distinctive in certain respects. Politics was a major factor in Nicargua, for example, as President Daniel Ortega endorsed the *no pago* movement. Ripples from the global financial crisis also may have hurt repayment rates. Yet the authors judged these three common threads to be primary:

1. *Concentrated market competition and multiple borrowing.*
2. *Overstretched MFI systems and controls.*
3. *Erosion of MFI lending discipline.*

The three can be further distilled as: an imbalance between the rate of expansion of the quantity of lending and the capacity of the systems needed to assure the quality of lending. With the partial exception of Morocco, socially motivated foreign investors, public and private, fueled the rapid growth (Roodman 2012, p. 278). They therefore bear some responsibility for these failures.

Does microfinance work?

Recent events raise fundamental questions about the efficacy of microfinance. But the best answers to the questions cannot be reached merely by reacting piecemeal to the pinpricks and body blows. We must think systematically. What constitutes success in microfinance? That is, when we ask whether microfinance works, what does "work" mean? Given a definition, or definitions, of "works," what evidence is available on whether success is being achieved? Is the evidence of high quality? How safely can one generalize from it? What do the answers to these questions imply for an overall assessment of microfinance, and for strategy going forward?

Roodman (2012) discerns three distinct conceptions of success in microfinance. Each corresponds, at least in English, to a different definition of "development"; and each tends to lead one to different kinds of evidence for testing.

Escape from poverty

The first conception of success is "development as escape from poverty." This corresponds to the widespread perception that microfinance, microcredit in particular, helps people out of poverty. That perception owes to stories of women taking loans to raise goats or sew saris, gain independence from husbands, and better their lives and their children's lives. The perception was importantly bolstered by academic research seeming to show that microcredit reduces poverty.

However, recent studies have significantly shifted our understanding of the impacts of microcredit. The new generation of work is randomized, just like the best drug trials. For lack of randomization, the older studies could not as credibly rule out such statistical problems as reverse causation. That is: if people who use microcredit are better off, perhaps that is not because the microcredit helped them but because being more affluent made them more able to borrow. And replication of some leading studies of the old generation shows that methodological sophistication meant to attack problems such as reverse causality mostly obscured them (Roodman and Morduch 2011).

As Table 2 showed, five randomized trials of microcredit have been released. They are reasonably consistent in showing that microcredit *does* stimulate microenterprise, as measured by business starts, investment, and profits. But as mentioned before, they are equally consistent in finding no impact on poverty. In this respect, the literature has confirmed Peter Rossi's (1987) Stainless Steel Law of Evaluation, which distilled his decades of experience evaluating programs: "The better designed the impact assessment of a social program, the more likely is the resulting estimate of net impact to be zero." Worse studies tend to show bigger impacts and better studies smaller impacts.

Randomized studies of microsavings have produced more positive results. Among vendors in a Kenyan market town and a group of tobacco farmers in Malawi, the availability of a formal deposit account has increased investment *and* household income over 12 months (Dupas and Robinson 2009; Brune et al. 2010).

It is worth bearing in mind that each of these studies examines just a small dot on the microfinance landscape—a particular product offered at a particular time in a particular place to a particular population, tracked for one to two years. The studies cannot prove that microcredit has never reduced poverty anywhere, nor that microsavings is always better in this respect.

That said, decisions that must be made today should be made based on conservative generalizations from the best evidence available today. And the best evidence available today says that microcredit cannot be relied up on to cause development-as-escape-from-poverty.

Freedom

The second conception of success borrows from the work of Amartya Sen, author of *Development as Freedom* (1999). For Sen, the essence of development is not just economic growth. It is expanding agency in one's life, control over one's circumstances. Such freedom flows from many sources: income, assets, education, health, civil rights, political rights. Central to Sen's theory is the observation that freedoms tend to support one another. Education leads to more income, which leads to more education. At the macro level, he has famously argued that in India freedom of the press prevented famine (freedom from want) in the 1960s, whereas in China lack of political freedom facilitated the 30 million deaths of the Great Leap Forward. Freedoms are thus both ends and means.

Financial services for the poor are inherently empowering. They are for helping poor people manage their money, which is central to economic survival. No work makes this clearer than *Portfolios of the Poor* (Collins et al. 2009). Through stories and data from detailed financial diaries, the book illustrates how those who "live on $2 a day" *don't* live on $2 a day, but on $3 one day, 50 cents the next, $3 the day after, and so on. The volatility and unpredictability of income, along with the greater vulnerability to health emergencies, means that poor people need financial services *more* than the rich, in order to set aside money in good times and draw it out in bad. Informally, out of necessity, they develop credit, savings, insurance, and transfer services to meet this core need. Forms of microfinance are additional options, with disadvantages (rigidity) and advantages (reliability, impersonality).

But *inherently* does not mean *automatically*. Credit can entrap. As a result, when and how much various kinds of microfinance empower or disempower is an empirical question. This question about impacts is hard to answer, for the reasons given earlier.

One kind of research relevant here is *qualitative* work, done by anthropologists who immerse themselves for a month or a year in communities where microfinance is offered, closely following the lives of some of those affected. The strength of such work is the rich insight it can give into the lives of human beings, which is particularly helpful when studying a subtle and complex concept such as "empowerment." The disadvantages are that the samples are small, usually in the dozens; and it is rarely experimental, thus lacking the capacity of randomized trials to reliably identify causality.

The qualitative findings on empowerment and microcredit are mixed, with the most negative results emerging for group loans. Helen Todd (1996) tells of a woman in Bangladesh labelled Begum who, along with her husband, invested her Grameen loans in cows and fertilizer, and climbed up a rung on the income ladder. And surely there have been women for whom it was a breakthrough to do serious financial business in public. But there are also worrying stories. Karim (2008) describes a "house-breaking" in Bangladesh in which a peer group carted off the belongings of a defaulting woman in order to repay her loan. Individual loans, which are free of the yoke of joint liability, appear more empowering (Kabeer 2001).

Savings appears rather differently from credit in the development-as-freedom light. It is harder to get in trouble by saving too much than by borrowing too much—unless the savings institution becomes insolvent. As an empirical matter, deposit-takers within the mainstream microfinance movement have so far lived up to the trust placed in them. If anything, the responsibility of holding deposits has led MFIs to lend more conservatively. Fear of unleashing a bank run may also deter politicians from interfering in operations (Chen 2011). Were a major deposit-taking MFI to go under, and were savers not kept whole, the empirical picture would change radically.

Industry building

It is interesting to note that for savings to empower, they must be *safe*—and that requires high-quality institutions, specifically, some combination of sound banks and effective supervisors. This brings us to the last conception of success in microfinance, "development as industry building." Though overshadowed in the public imagination by the other two conceptions, it was fully articulated early in the movement (von Pischke 1991; Otero and Rhyne 1994; Krahnen and Schmidt 1994). Within economics, it resonates with the thinking of Austrian economist Joseph Schumpeter. Writing 100 years ago, Schumpeter (1934 [1911]) reacted against the supply-and-demand graphs made famous by Alfred Marshall, which explained how prices helped the economy find equilibrium. Schumpeter wanted to understand why the economy he lived in operated in *dis*equilibrium as a steady stream of new firms and technologies perpetually disrupted the status quo. For Schumpeter the essence of development lay in this "creative destruction." Indeed, the constant churning of industrialization is what has reduced poverty in Europe over the last two centuries and in China over the last three decades.

Microfinance has not turned many clients into heroes of creative destruction. Typically, they sell more tomatoes or raise more goats. However, the microfinance movement has built impressive institutions and industries in many countries. BRI in Indonesia; the Grameen Bank, BRAC, and ASA in Bangladesh; Pro Mujer in Peru; Bancosol in Bolivia; D-MIRO in Ecuador; Equity Bank in Kenya. These and others do something once thought impossible: they employ thousands, they serve millions, they compete, and as result they innovate, offering more flexible and diverse services at lower prices. If the randomized studies were showing microcredit to be the financial equivalent of cigarettes, we would not celebrate this flourishing; but the case is otherwise.

And while the contributions to development may not be significant macroeconomically, they are respectable against the checkered history of foreign aid and philanthropy, in which failure is common. The public and private donors who supported the creation of the BRI program, the Grameen Bank, Bancosol, and others, made real contributions to development.

But not all growth of microfinance has been worthy of the label "development." Sometimes creative destruction has been more destructive than creative. Examples include the apparent microcredit overshoots in Bosnia and Herzegovina, Morocco, Nicaragua, and parts of India

and Pakistan, all of which burst within the last four years (Chen, Rasmussen, and Reille 2010).

Interpreting the past and present

A realistic vision of success

This systematic review of the impact of microfinance according to different definitions of success is rather like a guidance counselor perusing a student's report card. It is not a conclusion, but an *input* to a comprehensive assessment that can help make sense of current difficulties and plot a path forward.

In light of this evidence, what strategies should those wanting to support financial services to the poor adopt? Just as one might engage a tutor for a student struggling to read, one logical response is to zero in on the weaknesses of microfinance, such as the inherent but dangerous tendency to press for near-perfect repayment rates. The Smart Campaign is one effort of this type. It has obtained hundreds of endorsements for a definition of responsible lending and is now piloting an audit system for compliance. Someday investors could condition their funding on such audits.

However, the more mature the student, the more important it becomes to recognize that her nature is to some degree fixed, and to cultivate her manifest strengths. Microfinance is a mature enough industry that the latter metaphor is apt. We are most likely to do good if we help the industry play to its strengths, to guide it along its natural grain. And the evidence suggests that its strength is not in systematically lifting people out of poverty, but *building dynamic institutions to mass-produce inherently useful services for the poor*.

To discern this aptitude is not to imply that microfinance has always succeeded at what it does best. But it has done so often, and can do so more.

This conclusion sides with the "institutionalist" school associated with prominent German thinkers (J.D. von Pischke (1991); Jan Pieter Krahnen and Reinhardt Schmidt (1994); the work of C.P. Zeitinger and the ProCredit group), with the Ohio School (Dale Adams, Claudio Gonzalez-Vega, and again J.D. von Pischke), and with Acción International (e.g., Otero and Rhyne 1994). It implies that donors and social investors involved in microfinance should prioritize building financially self-sufficient institutions and stable industries. Subject to the constraint of financial self-sufficiency, they should support the delivery of financial services characterized by safety, diversity, flexibility, transparency, and prices appropriate to vulnerable people. Updating the philosophy, they should look to digital technologies in the hope that these will loosen the strictures of that binding constraint of self-sufficiency, allowing institutions to provide more diverse, safe, and flexible services at lower cost than once possible.

An anchored perspective on recent difficulties

This perspective anchors an analysis of most of the recent difficulties in microfinance.

It accepts the failure of the latest studies to demonstrate that microcredit reduces (or increases) poverty; it responds by observing that financial services, including credit, are inherently useful and that economic development has always involved the construction of institutions to deliver such services, however imperfect, on a large scale.

And it is dismayed, but not crushed, by the recent credit overshoots and reports of irresponsible lending practices. Much more than the impact studies, these signify serious flaws—direct challenges to the claimed core strength of microfinance in building institutions. However, to give up on microfinance at this point would be like giving up on mortgages because of the mortgage crises. Not only would it frustrate the continuing demand for microfinance, it would ignore and destroy the institutions that have been delivering it year in and year out, proving that safe, durable, large scale microfinance is possible.

As usual in credit crises, rapid growth appears to have been a core problem. This raises the question of what constitutes appropriate growth in microfinance. When is expansion healthy like the growth of a child and when is it unhealthy like cancer? A comparison between economy and ecology offers a way to think about this question (Roodman 2012). Asking when the arrival or growth of a microfinance institution enriches the economic fabric is like asking when the arrival of a new species adds resilience and productivity to an ecosystem. Answers to the ecological question arguably include: when the new species interconnects with other species in diverse ways, such as through predation, competition, and symbiosis; and when, as a result, the species' drive for growth is roughly counterbalanced by limits. Likewise, microfinance growth is most likely to enrich the economic fabric when MFIs link to many other economic actors—clients, regulators, domestic and foreign investors—and in many ways, including various forms of investment and financial service. Notably, relative to the common operating model that focuses on borrowing abroad and lending locally, a move into deposit-taking diversifies in two ways at once, connecting to a new source of capital and enriching service offerings.

The ecological analogy also suggests the value of broadening our concerns from the function of institutions to the functioning of industries. A *financial system* is more likely to be stable when it contains diverse and interacting players. In addition to the financial institutions, there generally must be an enabling regulatory environment, credit bureaus, consumer protections, supervisors that monitor capital adequacy and lending propriety, investors, rule of law (requiring accessible courts and police), perhaps deposit insurance, and more. In the ideal, and in practice, the exact configuration of a financial system will vary by context. Regardless, a lesson of history is that a sustainable system must consist of more than retail service institutions.

Ergo a sustainable microfinancial system, one that extends formal financial access to poorer people, must consist of more than MFIs. Historically, financial systems have typically begun with retail institutions; then, through bitter experience, governments and industry actors have added components such as credit bureaus and deposit insurance. Microfinance appears to be no exception to this pattern of often learning the hard way. But in some cases, donors and social investors can help governments learn from the past mistakes of others—instituting deposit insurance before a local bank run makes the need tragically obvious—or at least help governments learn faster once a crisis occurs.

The lessons of recent troubles

A natural first step in trying to learn from a financial crisis is identifying what caused it. As we have seen in the financial crises in wealthy nations, the search for the cause is inherently muddled, and for two reasons.

First, the focus on causes ignored the question of agency. Suppose it was determined that sunspots contributed to the mortgage meltdowns in Ireland and Spain. Blaming sunspots would not help. Better to blame the parts of the system that humans control for not being robust to sunspots. That is a fanciful example, so replace sunspots with human greed, which is also a fact of nature. Arguably, it does not do us much good to blame the mortgage bubbles (or the Andhra Pradesh overshoot) on the greed of investors. More practical is to blame the bubbles on rules that did not fully take into account the consequences of inevitably greedy behavior. Now, the distinction between greed and rules to contain it is simplistic. After all, the rules are also made by self-interested people such as politicians. Still, politicians, regulators, donors, and social investors do often act in the public interest, so it is on them that our best hopes rest for agency in the public interest. Thus, as a practical matter, the search for causes converges to a focus on what these legislators and regulators should do differently next time, taking human greed as given.

The second factor muddling the search for a cause is that causes interact. The global financial crisis hit many countries, with diverse regulatory systems, so it is not credible to blame it purely on idiosyncratic national factors as Alan Greenspan and the Greek government's affinity for side deals with Goldman Sachs. Seemingly, the universal cause was the huge swell of capital, much of it from certain developing countries. On the other hand, thanks to regulations that made Canadian banking relatively boring and safe—in particular, inhibiting loan securitizations—Canada escaped major damage, even though it was tied to the same global capital markets (Atlantic Council and Thomson Reuters 2012). So, arguably, poor policies in the United States and Greece were the root cause after all. How to square this circle? At the risk of oversimplifying, the crises can be seen as arising from the *combination* of easy money and bad policies. If either had been eliminated, the crises would have been prevented. Thus we could blame—and adopt policies to redress—either factor alone and be partly right. But ideally, those seeking to act in the public interest would recognize both factors, survey possible policy changes that could affect either, then choose from among them in light of what is known about costs, effectiveness, and political and

administrative constraints. The upshot is that it is important to distinguish the search for who or what to blame from the search for practical steps to prevent a repeat.

In the sweep of history, countries that are wealthy today have had the most time to learn hard lessons (and sometimes forget them). In these nations, the lending system includes such actors as retail lenders; investors therein; credit information bureaus; and regulatory bodies that limit and monitor aspects of credit products such as term, term disclosure, even pricing. For institutions that take deposits, additional regulators come knocking—to insure those deposits or ensure that under ordinary circumstances capital is on hand to absorb losses and meet withdrawal demands.

A truth often overlooked in excitement about microfinance as a retail service model is that it is no exception to this need for companion institutions. If anything, the need is greater when targeting the poor. The Economist Intelligence Unit annually surveys experts in order to assess the business environment for microfinance in dozens of countries. Implied in this work is a broad agenda for building microfinancial ecosystems. In contrast with the more famous Doing Business index, the Global Microscope survey puts roughly equal weight on the need for legal space to do operate—the need to avoid prohibitively burdensome regulation—and the need for well-functioning institutions of restraint (EIU 2012). The compilers of the Microscope cull data from relevant legal texts, scholarly articles, interviews with country experts, and other sources. On this basis, they make qualitative judgments, for example assigning a 0 if "regulated institutions may not take deposits," a 1 if "Regulated institutions can take deposits, but are limited in the types they may accept and most regulations are burdensome," a 2 if "regulated institutions may take a reasonably broad range of deposits and regulation is only moderately burdensome," and so on up to 4.

The results for 55 countries in 2012 show the potential for excellence—the mature markets of Peru and Bolivia top the list—and room for improvement in many countries. The 55 average above 2 on the 4-point scale only in connection with regulation and supervision of microcredit portfolios and institutional support for accounting transparency. (See Table 3.) Eleven countries lost ground in the 2012 survey but 28 gained, lifting the global average overall. The biggest improvements were in setting up functioning credit bureaus and in permitting agents to retail financial transactions, notably in "mobile money."

Table 3. Results of 2012 Microscope Survey

	Regulatory framework for					Supporting institutions for				
Country	Microcredit portfolios	Forming microcredit institutions	Non-regulated institutions	Deposit-taking	Regulator admin. capacity	Accounting trans-parency	Pricing trans-parency	Dispute resolution	Credit bureaus	Transacting through agents
Peru	4	3	2	3	4	3	4	3	4	3
Bolivia	3	2	3	3	3	3	4	3	4	2
Pakistan	3	3	2	3	4	3	3	2	2	3
Philippines	4	3	3	3	3	2	3	2	1	2
Kenya	4	3	3	3	2	3	2	1	1	4
El Salvador	2	2	3	3	2	3	2	2	3	1
Colombia	2	2	3	2	2	2	2	3	3	2
Cambodia	4	3	2	3	2	3	3	0	2	1
Mexico	3	2	2	2	2	3	3	2	2	1
Panama	3	2	2	2	2	3	2	2	3	1
Ecuador	2	2	2	2	3	2	2	2	4	1
Paraguay	3	3	3	2	2	2	1	2	2	2
Chile	3	1	2	2	1	3	2	3	2	2
Uganda	4	3	2	3	3	2	2	1	1	1
Ghana	3	2	2	2	1	2	2	3	1	3
Brazil	2	2	2	2	2	2	2	2	2	2
Rwanda	3	3	2	2	2	1	1	2	2	2
Armenia	2	2	0	0	3	3	4	2	3	1
Tanzania	3	1	4	2	2	3	1	1	0	2
Honduras	2	2	3	2	2	2	2	1	2	1
Dominican Republic	2	2	3	2	1	2	2	1	3	1
India	2	2	2	1	2	3	3	0	3	2
Bosnia & Herzegovina	1	2	2	0	2	3	4	2	3	0
Indonesia	3	1	2	2	2	3	1	1	1	2
Uruguay	2	1	1	2	2	2	2	3	2	1
Mongolia	3	2	1	3	3	1	2	1	0	2
Mozambique	2	2	3	2	2	2	2	1	1	1
Nicaragua	2	2	2	1	2	3	3	1	2	1
Nigeria	3	2	2	2	1	1	2	2	1	2
Kyrgyz Republic	3	2	4	1	2	2	1	1	2	0
Guatemala	3	1	2	2	1	3	1	1	2	1
Costa Rica	2	2	2	2	1	1	2	2	2	0
Azerbaijan	3	3	0	2	1	3	1	0	2	1
Tajikistan	3	3	0	2	2	3	2	0	0	0
Madagascar	3	3	0	3	2	2	0	0	1	1
China	2	2	1	3	2	2	1	0	1	0
Senegal	2	2	0	3	2	2	1	1	0	1
Georgia	3	3	0	0	2	3	1	1	1	0
Morocco	2	3	0	0	2	3	0	0	3	1
Lebanon	2	2	2	0	1	2	2	2	0	1
Bangladesh	2	2	2	1	1	2	3	0	0	1
Cameroon	3	2	1	2	1	2	1	0	0	1
Jamaica	1	1	1	1	1	3	1	2	1	1
Nepal	2	3	1	1	0	1	2	0	1	2
Yemen	2	3	2	1	1	2	0	0	1	1
Haiti	2	1	3	1	0	1	2	1	0	1
Argentina	2	1	1	0	1	2	1	2	2	0
Dem. Rep. of Congo	2	2	1	2	1	1	1	1	0	1
Sri Lanka	1	2	2	1	0	1	1	1	1	2
Egypt	1	1	2	1	2	1	0	1	2	1
Turkey	2	1	1	0	1	3	1	1	1	0
Thailand	1	1	1	2	0	1	2	1	1	1
Venezuela	1	1	0	1	1	3	2	1	0	1
Trinidad & Tobago	1	0	1	1	0	2	1	1	3	0
Vietnam	2	1	1	2	1	1	1	0	0	0
Average	2.4	2.0	1.7	1.7	1.7	2.2	1.8	1.3	1.6	1.2

Despite the progress, the global capacity to regulate retail microfinance institutions lags the capacity to build and invest in such institutions. Indeed the microfinance investment vehicles and securitization deals are world-class. The result is microfinance ecosystems in many countries with robust, energetic MFIs, and few other constituents nearly so vital: lots of growth drive and little countervailing force. This imbalance is worrisome given finance's especial propensity for instability. It makes microfinance industries fragile and potentially destructive to others and themselves.

The imbalance arises in part from the historical tendency of microfinance promoters to focus on supporting institutions and, starting in the mid-1990s, ways to invest in them.[12] The tendency was understandable, even necessary, for several reasons. In the 1960s and 1970s donors lent billions to developing-country governments for credit programs and mostly met with failure as local political economy distorted who received the subsidized credit. The microfinance movement arose in part as a reaction against this top-down, government-centered approach. It favored an adaptive, bottom-up strategy of experimenting and replicating success. It operated in the grey zone between the formal and informal economies, taking the relative lack of regulatory infrastructure as given. It accepted that countries that still have far to go in economic development also have far to go in institutional development. It discovered that it was easier for outsiders to stand up non-governmental lending institutions than to install functioning credit bureaus, regulators, and supervisors. And it made extraordinary progress, reaching tens or hundreds of millions of people.

Still the imbalance is there, and must be reckoned with. True to the earlier warnings about the difficulty of isolating causes, it is not useful to simply *blame* the recent excesses in microcredit on the imbalance. None of us is a god who can reach down and directly adjust the balance. Nevertheless, viewing the industry as out of kilter in this way helps to organize the search for practical improvements. It points up the value of three practical steps:

1. *Wherever possible, support the development of a richer institutional environment for microfinance.* Channels include traditional "North-South" technical assistance and "South-South" learning activities such as those run by the Alliance for Financial Inclusion.[13] Codified principles of financial inclusion (Claessens, Honohan, and Rojas-Suarez 2009; G20 2010) and distillations of best practices (Christen, Lyman, and Rosenberg 2003) can guide the work.
2. *Recognizing that progress on the first item will be slow, attempt to compensate in domains where outsiders have more control, notably in the governance of MFIs and the functioning of the international microfinance investment industry.* The more impoverished the microfinance ecosystem, the less that MFIs and their investors can depend on other institutions to check their worst collective tendencies. The Smart Campaign, which seeks to define

[12] The focus has not been exclusive. CGAP and some donors have also partnered with governments to improve the regulatory environment for microfinance.

[13] Perhaps countries such as Greece and the United States could benefit from some North-North or South-North learning.

and monitor responsible lending, can be seen in this light. If responsible lending can be credibly measured, then funders can factor it into their allocations of capital.

In addition, as Krahnen and Schmidt (1994, p. 108) argue, MFIs that seek the "double bottom line" would do well to institutionalize this pursuit by infusing their governance with pluralism. In particular, they can give representatives of each bottom line a strong voice on the governing board. Advocates for the social bottom line might be drawn from the NGOs out of which for-profit MFIs spring (in cases of transformation) or from relevant public agencies, foreign or domestic, or from social investors. Elisabeth Rhyne (2010) has noted that many transformations of MFIs from non-profit to for-profits status have given the founding NGOs ownership and board voice in their for-profit offspring. Indian law, however, prevented this from happening in Andhra Pradesh, handing control of for-profit MFIs to equity investors looking for a quick, lucrative exit.

3. *Confront the problem of rapid growth more systematically.* Since the regulatory environment for microfinance in most countries resembles the American more than the Canadian mortgage lending environment—fragile to large influxes of capital—donors and social investors need to attack the collective action problem of modulating the quantity and character of capital inflow according to market conditions. Otherwise, investment in microfinance will often prove counterproductive from the point of view of industry building. Just look at Spandana in India, which is hanging on by a thread, or Zakoura in Morocco, which had to be merged into another lender, or BANEX in Nicaragua, which went bankrupt. The issue here is primarily one of magnitudes of inflows; however, it should be recognized that the quality matters too. For example, an equity investment made to give an institution adequate capital to take savings may, by enabling deposit-taking, make the institution lend more conservatively. Equity that allows a credit-only MFI to leverage more debt may have the opposite effect. In my experience, many people in investing institutions recognize that too much money of certain kinds has gone into some markets too fast. But beyond this, the only point of consensus among investors is that it was some other investor's fault.

Roodman (2012) proposes the creation of a kind of international credit bureau whose subjects would be microfinance institutions. It could monitor debt levels of individual MFIs, as well as their rates of growth in borrowing, lending, and equity. In could also monitor market conditions in countries and region where the MFIs operated, since rapid market growth can damage even slow-growing MFIs in that market. Just like an ordinary credit bureau, this one would need to be supplied with accurate, timely information on all MFI investment deals, whether involving foreign or domestic investors. Vital too would be data on portfolio quality. The credit bureau would need the right to share this data with potential investors. Based on this information, it could issue "credit scores" or red, yellow, or green lights to investors considering whether to place funds in various MFIs and countries. In issuing guidance, it could distinguish between deposit-taking and non–deposit-taking ones since the former sometimes need equity investment to increase their capital adequacy to protect depositors, as distinct from leveraging equity for more lending growth. Unlike an

ordinary credit bureau, it might also take the initiative in publicizing its market assessments to make them harder to ignore. Public investors, for example, might face pressure from politicians and taxpayers to explain why they were investing in red-light countries.

The proposal is not without problems. The body's hypothetical mandate begs many questions about how to determine when a market is at risk of overheating. The body's recommendations would not be binding. And it could even backfire in the manner of the ratings agencies in the United States: at times it would err on the liberal side, creating a misplaced sense of security about some markets, boosting investment flows, and making matters worse than if it did not exist. That argues for keeping the mechanism relatively informal, so that its judgments are not taken as gospel.

The practical question is not whether system would work perfectly, nor even whether it would improve on the status quo (which, seemingly, would not be hard), but whether it is worth trying. The initial funding, which would be modest next to the billions invested in microfinance each year, could come from foundations and donors working on financial services for the poor. If successful, the MFI credit bureau might eventually self-finance through fees to investors or, like a rating agency, MFIs.

Absent credible mechanisms to moderate capital flows, donors and social investors will almost certainly do best by erring on the side of providing *less* funding. This is because the tendency toward instability in credit markets is nonlinear. Up to some unknown threshold, the economic value of a credit portfolio—the net present value of actual future payments—remains close to the book value. Beyond this threshold, credit goes increasingly into unsustainable uses, including, crucially, the refinancing of older loans. This refinancing inserts a temporary wedge between apparent and actual credit portfolio quality. It delays the transmission of information about the true state of the portfolio. That facilitates further and ultimately destabilizing growth.

Not only will a ratcheting-down of microfinance investment raise the probability that microcredit will grow sustainably. It will also increase the incentive for MFIs to take savings as an alternative source of funds, or to seek regulatory permission to do so.

Conclusion

Microfinance has been growing for 35 years and now reaches upwards of 100 million people, who cannot all be wrong in their judgments about the utility of microfinance. Moreover, most of them are served by institutions that are nearly or completely self-sufficient in financial terms; these MFIs do not depend greatly on outside subsidies, and so their fates do not ride on the latest headlines in the *New York Times* or *Die Welt*. Thus all the recent bad press will probably not extinguish the microfinance industry. And just as recent crises in the mainstream financial system do not spell Armageddon for that system, the recent wounds to the microfinance industry—the bubbles and political backlashes—are unlikely to bring down the global microfinance industry.

Nor should they. Because of the vicissitudes of poverty, poor people need financial services more than the rich. Their financial options will always be inferior—that's part of being poor—and microfinance offers additional options with distinctive strengths and weaknesses. The microfinance industry has demonstrated an ability to build enduring institutions to deliver a variety of inherently useful services on a large scale.

Nevertheless, the recent travails are signs that something is wrong in the industry. What is wrong is, ironically, what was once so right about the industry: it largely bypassed governments in favor of an experimental, bottom-up approach to institution building. The industry got so good at building institutions and injecting funds into them that it often forgot that a durable financial system consists of more than retail institutions and their investors. The narrow focus became a widening problem as microfinance grew. The result in some countries is a microfinancial ecosystem that lacks diversity, being dominated by vigorous retail MFIs subject to inadequate external (and, in some cases, internal) controls.

To mature, the industry and its supporters should recognize the imbalance it has created. Where possible, they should work to strengthen institutions of moderation such as credit bureaus and regulators. Accepting that such institutions will often be weak, they should err on the side of investing less. In microfinance funding, less is sometimes more.

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