From Revolution to Evolution: Charting the Main Features of Microfinance 2.0*

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Abstract
The past 30 years or so have seen microfinance take off from small group-based lending experiments to several thousand microfinance institutions (MFIs) serving a growing portion of the developing world today. Nevertheless, the challenge to improve broad-based access to financial services remains—going beyond credit and into other products such as savings, insurance, and money transfer services. Where is the microfinance industry headed? This essay reviews the available evidence and argues that both the public and private spheres are crucial to the continued dynamism and expansion of the microfinance industry: the private sector continuing as a source of product and process innovations; and the public sector taking on a strong market enabling and development role.
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1. Introduction
Access to financial services, notably credit and insurance, are particularly important from a standpoint of human and economic development. The microfinance literature highlights how financial market imperfections could

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prevent the poor from borrowing against potential future earnings in order to invest, serving as an obstacle to lifting themselves out of poverty and locking them in a poverty trap (e.g., Armendariz de Aghion and Morduch 2005). Unsurprisingly, development practitioners and policymakers have devoted considerable energy and resources in the last 30 years or so towards advancing the cause and practice of improving broad-based access to microfinance.\footnote{If one considers the late 1970s (when Grameen Bank was created) as a rough approximation of when the microfinance revolution began, then we have about thirty years of accumulated experience and knowledge in this area.} With its humble beginnings in 1976 providing credit to small groups of women, Grameen Bank is now a famous example of the microfinance revolution: today it has well over 7 million borrowers, 97 percent of whom are women. Its 2,481 branches provide services in over 80,000 or over 90 percent of Bangladeshi villages.\footnote{http://www.grameen-info.org/bank/index.html.} Despite impressive gains by Grameen and others like it, notably in the Asian region, very rough estimates suggest that access to formal financial services is still very low in many parts of the world (see Table 1). When one looks beyond credit into other types of financial services such as savings, insurance, and money transfer services, the available evidence suggests that penetration rates are even less impressive.\footnote{A recent study on India provides a rough guesstimate of the total microinsurance potential (life and non-life insurance) for that country, reaching up to $1.9 billion (UNDP 2007: 97). For a survey of the present state and key issues of microinsurance provision in developing countries today, see Churchill (2006).}

If the past 30 years or so of microfinance represent the first phase of this industry’s development, what might the next phase look like? Speculating on the future of microfinance, this essay elaborates on the critical role to be played by private innovations, as well as market enabling and developing public policies. Progress on these two main fronts could help to propel the microfinance industry towards reaching a wider group of the world’s low-income population and providing them a broader array of financial services. In this “next phase,” private innovations will be even more critical in mitigating costs and ensuring that microfinance providers (MFIs) are more responsive to evolving client demands. Though access to basic credit and savings products is still deficient in some parts of the world, growing competition and sophistication in the array of products, as well as in individual product design, are now emerging as keys to the microfinance industry’s future. Public policies will need to be designed in ways that meet the challenges of a maturing microfinance industry; and in many ways, both the private and public spheres will need to innovate.