Insights on...

MICROFINANCE

A PRIMER FOR DONORS AND INVESTORS

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INTRODUCTION

Microfinance has been hailed as one of the most promising approaches to alleviating poverty. The American Nobel Laureate economist Milton Friedman once said, "The poor stay poor … because they have no access to capital." The field of microfinance was founded on this premise – that economically disadvantaged individuals, if given access to credit and other modest banking services, will be able to invest in their small businesses, improve their economic well-being and make better lives for their families. Proponents of microfinance suggest that it is "sustainable" philanthropy because of its ability to recycle charitable dollars, to provide a helping hand, not a handout. Microfinance is especially appealing to socially responsible investors and self-described "social entrepreneurs" who are seeking to channel their philanthropic and investment resources toward efficient, entrepreneurial enterprises.

Critics, however, believe that investing in large-scale industries in poor and rural communities, not microenterprises that employ only a few individuals, is the better solution to alleviating poverty.[1] Some welfare advocacy groups suggest that microfinance essentially shifts the burden of poverty reduction away from governments and state-funded economic development programs that ultimately are responsible for providing assistance to its most vulnerable citizens. There is also concern that charitable contributions and investments from individuals, private and public foundations and commercial banks will be diverted from more mainstream local and national health and education programs to support microfinance operations.

Although the influence of microfinance may be controversial, it clearly presents significant opportunities for community-conscious – and globally conscious – donors and investors who wish to support domestic and international economic development efforts. Microfinance gives donors an opportunity to move beyond "check-book" philanthropy and, in some cases, make interpersonal connections with the individuals and families who benefit from their generosity. While a full discussion of microfinance investment funds is outside the scope of this paper, industry investment analysts have offered compelling statistics to show that these funds are beginning to earn attractive returns as compared to other socially responsible investments, thus allowing investors an opportunity to do well while doing good.[2]

In this study, we will present an overview of the field of microfinance and survey its most innovative approaches. In addition, we will explore the arguments for and against microfinance as a strategy for helping poor entrepreneurs become economically self-sufficient. Finally, we will highlight opportunities for donors and investors to participate in the growing and dynamic, local and global, microfinance communities.

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MICROFINANCE: MICROCREDIT

In the simplest terms, microfinance is an integrated package of financial services (loans, savings, insurance) for very poor,[3] subsistence-level and marginally poor individuals and families who seek to develop small businesses (microenterprises) and self-employment opportunities. These financial services are essential to poor families who often lack access to traditional banking institutions because they cannot provide the requisite collateral, meet minimum deposit requirements, have poor credit histories or are not granted access to banks because of their gender or minority status. Nonprofit and nongovernmental organizations (NGOs), for-profit organizations, finance companies, savings and loan associations, and large commercial banks that provide funding for and services to develop microenterprises are commonly referred to as microfinance institutions (MFIs).

Small loans (microcredit/microloans) are the primary financial product offered by MFIs. These loans are usually uncollateralized, and depending on the lending model, they are available to individuals or groups of borrowers.[4] In some instances, MFIs will accept alternative sources of collateral, such as group guarantees, that are used in solidarity group and village banking, or personal items such as television sets and appliances. MFIs often partner directly with microenterprise development centers, which offer business planning courses, business consulting services, market research, as well as coaching and mentoring for the inexperienced business owner.

These seemingly straightforward definitions belie the myriad approaches employed by domestic and international MFIs. We will review several of these models later in this discussion.

A BRIEF HISTORY OF MICROFINANCE AND DR. MUHAMMAD YUNUS

While microfinance and microcredit organizations have received significant attention in recent years, the concept is not new. According to Mary Coyle, director of the International Institute at St. Francis Xavier University in Nova Scotia, who has studied the history of microcredit, small money-sharing groups of family members and friends have operated for centuries – probably since the introduction of currency. Modern experiments with microcredit began more than 30 years ago in Bangladesh, Brazil, Venezuela and a few other developing countries. One of the earliest proponents of using microcredit to encourage small business development among the poorest of the poor was Dr. Muhammad Yunus, an economist who is regarded by many as the "father of microcredit." Here is an abbreviated timetable of Dr. Yunus' efforts:

- In 1974, Dr. Yunus began making loans to a group of impoverished Bangladeshi women whose lives had been devastated by poverty and the effects of famine. Collectively, the women paid back the loans with interest from income generated from their small business. This model of lending became the foundation of microfinance.
- In 1983, Dr. Yunus founded Grameen Bank in Bangladesh with a mission to eradicate poverty through microlending to destitute craftspeople.
- By the late 1980s, Dr. Yunus' idea of providing banking services to the poor and Grameen Bank's model began to take root in several other developing and developed countries.
- In the 1990s, many microcredit institutions began to transform themselves into more traditional financial services organizations in order to reach new borrowers and expand available banking-related services.

The 2006 Nobel Peace Prize was awarded to Muhammad Yunus and Grameen Bank for their efforts "to create economic and social development from below." Of the 2006 laureates, the committee said:

"Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh, but also in many other countries. Loans to poor people without any financial security had appeared to be an impossible idea. From modest beginnings three decades ago, Yunus has, first and foremost through Grameen Bank, developed microcredit into an ever more important instrument in the struggle against poverty. Grameen Bank has been a source of ideas and models for the many institutions in the field of microcredit that have sprung up around the world.

"Yunus's long-term vision is to eliminate poverty in the world. That vision can not be realised by means of microcredit alone. But Muhammad Yunus and Grameen Bank have shown that, in the continuing efforts to achieve it, microcredit must play a major part."

Source: Nobel Peace Prize for 2006, October 13, 2006, http://nobelprize.org/nobel_prizes/peace/laureates/2006/press.html

- The United Nations designated 2005 as the International Year of Microcredit.
- In 2006, Dr. Yunus and Grameen Bank received the Nobel Peace Prize for their efforts to fight poverty in Bangladesh.
- In March 2008, Grameen Bank reported having 7.46 million borrowers, 97% of whom were women. The loan repayment rate was approximately 98.9%.

As a result of this recognition, and with the support of several high-profile philanthropists and governments, interest in microcredit and microfinance institutions has grown tremendously. Advocates of microfinance highlight the critical role that providing financial services to the poor can play in alleviating poverty. Later in this discussion, we will review some of the challenges that practitioners face when implementing these programs in international and domestic markets.

DOMESTIC AND INTERNATIONAL MICROFINANCE

There are many commonalities between MFIs in the United States (domestic) and those that operate in international communities. While not all MFIs outside the U.S. exist in developing countries, microfinance experts typically refer to "international microfinance" as those initiatives in Africa, Asia and Latin America. Both domestic and international MFIs are supported by charitable contributions, private and public foundations and commercial investors; both respect the entrepreneurial energy in marginalized people; both recognize that financial services are key to poor people's asset development; both emphasize alternative measures of credit risk analysis; both offer relatively small loans, with "stepped" amounts based on past performance; both use high-touch strategies to support borrowers and ensure repayment; and both have demonstrated that poorer borrowers can repay loans with the right structure and support. The fundamental differences between domestic and international MFIs are the availability of savings products, the average size of loans, the scale, sustainability (and profitability) of MFIs and the kinds of complementary microenterprise development programs offered to borrowers.

International Microfinance – Loans

The success of international MFIs is based largely on their microcredit operations. International MFIs target poor and low-income entrepreneurs, mostly women, who live in rural and subsistence farming communities, and provide them with small, uncollaterized loans to start and grow businesses. These MFIs often compete with local moneylenders who function as quasi-bankers for entire villages and commonly charge exorbitant fees on loans, in many cases higher than 200%.

International MFIs evaluate potential borrowers in much the same way a conventional bank would, based on business assets, amount and cost of goods sold, cost of raw materials, credit history and the borrower's capacity to repay the loan. Upon approval of the borrower's application, the financing institution provides a small, short-term loan at an interest rate that reflects the cost of lending; that is, interest is enough to cover the administrative expense of making the microloan. This business model necessitates an initial interest rate that is relatively high (15–70%), especially when the MFI is just starting and has not accumulated a significant loan portfolio.[5] Clients who demonstrate success in business and accountability by repaying their loans on time are eligible for "stepped lending" – a second, larger loan and increasingly larger amounts each time a loan is repaid on time.[6]

International MFIs often employ various strategies to minimize initial risk while allowing their borrowers to grow their businesses. "Group lending," where groups of borrowers are jointly responsible for a single loan, is a popular practice among microlenders and has been found to be most successful when implemented in closely knit, rural communities and urban settings where people know each other and their businesses well. Each borrower cross-guarantees the loans of the other members. Consequently, borrowers are careful to choose only dependable borrowing partners.[7] Once the group (between 3 and 30 borrowers) develops a viable business plan, each member receives his or her part of the group loan. Repayments against the loan are made at regular intervals by every member as the group continues to meet throughout the course of its loan to monitor business development activities and make sure any missed payments are covered.[8]

Since the loans made are so small, MFIs require a large number of clients and loans to become self-sufficient and profitable. In addition, MFIs must run highly efficient operations and continually adjust interest rates charged on loans to make sure transaction costs are covered. Each new borrower must help finance the cost of lending to the next borrower, by increasing the size of the MFI's loan portfolio and reducing the need to charge high rates of interest. The more people the program reaches, the more resources it has to expand its client base. Throughout the process of making loans, collecting repayment and expanding, the goal remains the same: to meet the needs of borrowers and ensure that the MFI making the loans is financially sustainable.

A typical microenterprise has fewer than 10 employees (many are family members), has limited capital assets (usually under $1,000), is often located in the home or yard, uses simple technologies, is labor intensive, obtains raw materials locally and markets its products locally.

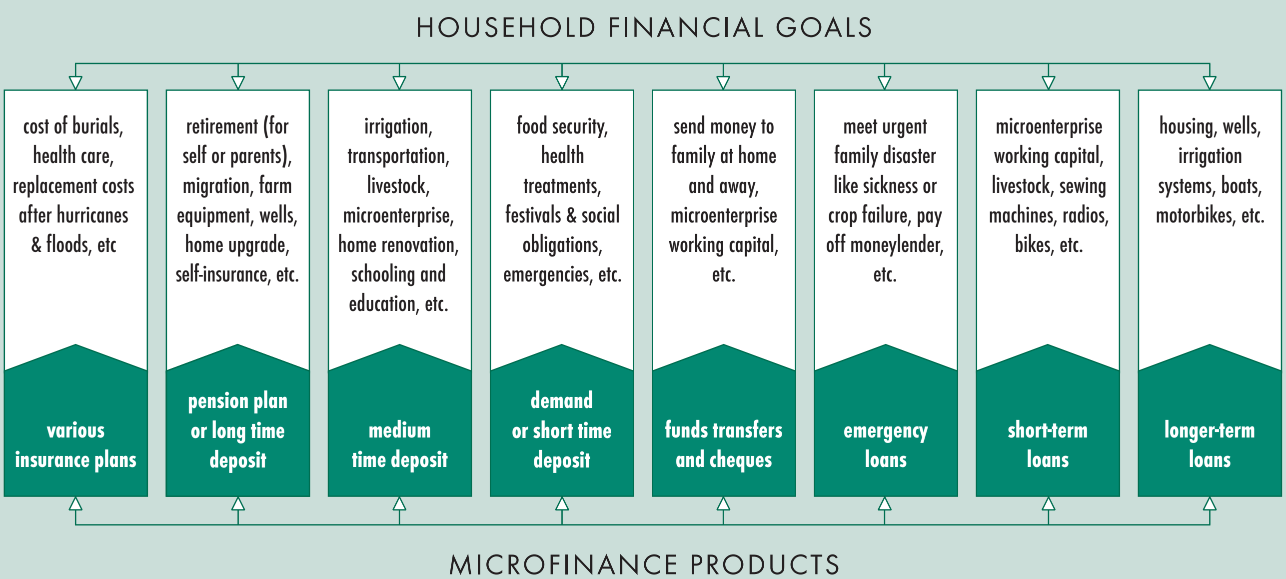
Source: Data Snapshots on Microfinance – The Virtual Library on Microcredit

International Microfinance: Savings and Insurance

Many practitioners working in the field of microfinance have identified savings programs as an important financial offering for poor families seeking to escape abject poverty. In his book, *The Poor and Their Money*,[9] Stuart Rutherford, an independent researcher and consultant in financial services for the poor, states that the basic financial problem poor people face is to gather a "usefully large" amount of money. But in many poor and rural communities, there simply is no tradition of using banks or bank-like entities to safeguard excess money. In communities where the concept of savings products is understood and culturally accepted, safe and reliable savings programs are informal or otherwise nonexistent. Commercial banks generally will not take the savings of poor farmers and self-employed business owners who may wish to make deposits in tiny increments, as low as $5 or $10. As a result, people living and working in rudimentary economies, where accumulated wealth is often tied to crops or cattle that can be destroyed or otherwise lost, are unable to save without incurring significant loss, or at least risk and stress.

Over the last several years, The Bill and Melinda Gates Foundation has donated more than $300 million to microfinance organizations to fund microcredit and insurance programs. Now, the Gates Foundation is shifting its focus toward programs designed to encourage savings among the poor.[10] Most recently, the Gates Foundation has made grants to Oxfam International to fund group-savings and training programs in Mali and Cambodia.

TYPES OF MICROFINANCE



Source: Brett Matthews, Mathwood Consulting Company

Savings are important both as a vital safety net for the poor and as a source of funding that does not rely on external sources. Many strong MFIs, notably in Africa, recycle the savings of their clients as a principal source of loan funds for their borrowers.

Source: Data Snapshots on Microfinance – The Virtual Library on Microcredit

For the MFI, deposits help increase the client base and provide the necessary capital to increase the loan portfolio and make the MFI profitable. In fact, some experts would suggest that savings deposits are now as vital to microfinance institutions as a healthy loan portfolio. MFIs that offer their clients savings products as "loss leaders" are working to expand services to the rural poor and offer these products in more safe and cost-effective ways.[11]

One recent technological innovation at Opportunity International, one of the largest international MFIs, is the use of smart card technology at its banks. Clients receive a smart card that includes biometric fingerprint technology. Using this card, they can access their savings and receive disbursed loan funds at ATMs. More importantly, the card serves as a form of identification for the client so that they, and only they, can access their funds – preventing theft and fraud. The challenge, of course, is that many potential smart card clients live in rural communities and the nearest ATMs may be many miles from their homes.

Similarly, access to adequate insurance is important to poor small business owners who, in many cases, are the sole income earners for their households. Because health crises are the primary reason microcredit clients default on their loans, increasingly, the largest MFIs are working with insurance brokers to offer insurance, specifically health insurance, to their clients.

INTERNATIONAL MICROFINANCE INSTITUTIONS COMPARISON

	ACCIÓN INTERNATIONAL (NETWORK)	GRAMEEN BANK	OPPORTUNITY INTERNATIONAL	FREEDOM FROM HUNGER	PRO MUJER
Active Loan Portfolio	$2.9 billion	$582 million	$501 million	$70.97 million	$26 million
Total Clients	3,120,000	7,527,700	1,121,786	754,000	193,000
Loan Repayment Rate	97%	98.11%	98%	99%***	99%
Average Loan Size	$954; $922; $85*	$309	$227**	$168	$225

**Latin America and the Caribbean; Africa; Asia. Calculated as "average loan balance," the total outstanding portfolio at year-end 2007, divided by the total number of active clients. Indicates the average amount yet unpaid by each client. Does not include the U.S. ACCIÓN Network.*

***Excludes Eastern Europe*

****For Freedom from Hunger's Credit with Education Initiative*

Domestic Microfinance

In 2006, 36.5 million people in the United States (12.6% of the population) lived at or below the poverty line.[12] Of these, about 21% are minorities and women.[13] Approximately one quarter of families are "asset poor," meaning they do not have enough assets to sustain themselves at or above the poverty line for more than three months.[14] And, despite the United States' highly developed economic infrastructure, an estimated 22 million of its inhabitants are unbanked.[15] These statistics inform the objectives and activities of MFIs and microenterprise development organizations in the United States.

While both international MFIs, like the Grameen Bank in Bangladesh, and domestic microfinance organizations in the United States share the primary goal of alleviating poverty, each must meet the challenge under fundamentally different social and economic conditions.

MFIs in the United States primarily serve minorities, recent immigrants and women whose access to financial services is hampered due to damaged credit, lack of credit history or capital needs too small for a commercial bank's consideration. Domestic MFIs must compete in financial markets dominated by relatively healthy commercial credit. In contrast to international MFIs, domestic microfinanciers have higher loan loss rates as a result of borrowers defaulting on their loans. This disparity can be explained by the "credit culture" in the United States in which bankruptcy is an option, clients' poor credit histories and the relatively high business failure rate in the United States. Microfinance programs – small loans and weekly collection schedules – are labor-intensive, resulting in higher operating costs as compared with commercial banks. Nonprofit and for-profit MFIs are generally not able to recoup these transaction costs in the same manner as international MFIs, by charging higher interest rates, due to commercial banking regulations and usury laws.

A secondary goal of domestic MFIs is to integrate their borrowers into the existing bank infrastructure. To that end, and in an effort to respond to the unique challenges of the domestic economy and the credit culture in the United States, many MFIs participate in microenterprise development programs. These programs include business planning courses, business consulting services, market research, financial literacy training, coaching and mentoring. Most domestic MFIs partner with local government programs that are designed to assist in the development of small businesses. For example, the U.S. Small Business Administration (SBA), an independent agency of the executive branch of the U.S. Federal Government, provides a Microloan Program to "startups" – newly established or growing small businesses. The average loan size is approximately $13,000.

DOMESTIC MICROFINANCE INSTITUTIONS COMPARISON

	ACCIÓN TEXAS	ACCIÓN CHICAGO	JUSTINE PETERSEN
Active Loan Portfolio	$17.9 million	$1.3 million	$300,000
Total Clients	6,102	1,066	15,000
Loan Repayment Rate	94%	94%	98% (FY 2007)
Average Loan Size	$10,273	$8,837	$6,500

Similarly, the Community Development Financial Institutions Fund (CDFI Fund) of the U.S. Treasury works to expand the capacity of nonprofit financial institutions to provide affordable financing to underserved populations and communities in the United States.

There are approximately 260 microfinance institutions across the United States offering microenterprise financing. However, when compared to international MFIs, the development of microlending programs has been slower with respect to achieving high levels of self-sufficiency and scale, although there are a few "break-out" organizations that are demonstrating how both can be achieved.

ACCIÓN USA, one of the largest nongovernmental microlenders in the United States, serves low- to moderate-income microentrepreneurs.[16] During the 17 years of work in the United States, ACCIÓN USA and its "licensee" microlending organizations (Chicago, New Jersey, New Mexico, New York, San Diego and Texas) have loaned out approximately $154 million to more than 16,000 microentrepreneurs with an average loan of $5,300.

ACCIÓN Chicago lends primarily to "start-ups" such as restaurants and home-based businesses like daycare centers and cleaning services. It also makes loans to truckers who are expanding their routes and electrical contractors who don't own their own tools. The average loan size in these instances is $8,800. Credit Builder loans (between $200 and $2,500), a product unique to ACCIÓN Chicago, are popular with entrepreneurs who are looking for capital to start small businesses, but who have poor credit histories. A recent study by ACCIÓN Chicago and the University of Chicago Graduate School of Business showed that microenterprise clients improve their average monthly profits by 47%, their business equity by 42% and their take-home income by 38% over an average of 17 months.

MICROFINANCE FACTS

- Because microfinance organizations employ different operational models and are largely unregulated, the exact number of domestic and international MFIs is difficult to estimate. However, The World Bank estimates that there are now more than 7,000 MFIs, serving approximately 16 million poor people in developing countries.
- The annual total cash turnover of MFIs worldwide is estimated at $2.5 billion.
- The number of microfinance clients has grown between 25-30% annually over the past five years.
- Demand for microfinance services is estimated to reach nearly 600 million people by 2010, but lack of capital means the MFIs can only serve about one-third of this number.

Sources: Data Snapshots on Microfinance – The Virtual Library on Microcredit; The United Nations Capital Development Fund – www.uncdf.org; The World Bank – www.worldbank.org; Unitus – www.unitus.com

THE DETRACTORS: WHY MICROFINANCE IS NOT THE ANSWER

While there are many economists and practitioners who support the efforts of international and domestic microfinance institutions, there are just as many critics who doubt the efficacy of this poverty-reduction model. Critics claim that philanthropists and financial institutions should invest in the infrastructure to support large industrial businesses instead of making small loans to poor people.

Gina Neff, an economic journalist, has been particularly critical of the lending practices of Grameen Bank and Dr. Yunus' claims that microfinance is eradicating poverty in poor, rural communities. In her article *Microcredit, microresults*, Neff states that "after eight years of borrowing, 55% of Grameen households still aren't able to meet their basic nutritional needs – so many women are using their loans to buy food rather than invest in business."[17]

Here are several arguments against investing in microcredit:[18]

- Microloans are more beneficial to borrowers who live above the poverty line because they are in a better economic position, and more willing, to take risks to create innovative industries and products.
- While microloans are seen as helping women become self-empowered and economically independent, in societies dominated by patriarchal systems, many women still do not have control over the loans or the income that is derived from their microenterprises.[19]
- Every poor person cannot be an entrepreneur. Many people in the poorest, mostly rural communities do not have marketable skills or business expertise to sustain a successful microenterprise. In fact, studies have found that even in developed countries, only 10% of the labor force consists of entrepreneurs.[20]
- Poor clients are charged high interest rates on their microloans and while these rates are significantly less than those charged by informal moneylenders ("loan sharks"), these clients must earn enough income from their microenterprise(s) to surpass the high interest rates charged by the MFIs or they risk becoming poorer than they were before they received the microloans.

WHY MICROFINANCE (MICROCREDIT) DOESN'T WORK

According to Professor Aneel Karnani of the Stephen M. Ross School of Business at the University of Michigan, to understand why creating jobs, not offering microcredit, is the better solution to alleviating poverty, consider these two alternative scenarios:

- A microfinancier lends $200 to each of 500 women so that each can buy a sewing machine and set up her own sewing microenterprise, or
- a traditional financier lends $100,000 to one savvy entrepreneur and helps her set up a garment manufacturing business that employs 500 people.

In the first case, the women must make enough money to pay off their usually high-interest loans while competing with each other in exactly the same market niche. Meanwhile the garment manufacturing business can exploit economies of scale and use modern manufacturing processes and organizational techniques to enrich not only its owners, but also its workers.[21]

- Most microenterprises by nature are small, inefficient operations and cannot expand to take advantage of economies of scale. Moreover, the success of these small business ventures is extremely vulnerable and depends on the strength of the local economy, the support of local governments and a countries' ability to address natural disasters, droughts and political instability.
- Focusing on a market-based philosophy to alleviate poverty undermines traditional poverty programs and essentially requires poor people to shoulder the burden that should otherwise be handled by governments, nonprofit organizations and nongovernmental organizations (NGOs) that operate poverty-reduction programs.

But for every argument against microfinance there are equally compelling examples that show how microfinance has become a powerful poverty-reduction tool:

- Thousands of entrepreneurs credit microloans or a series of loans with jumpstarting their microenterprises and allowing their businesses to a move forward from a subsistence level. Most importantly, their small businesses provide steady, predictable income that helps them and their families improve their economic well-being. For example, Orlando Correia of Fortaleza, Brazil, received a microloan of $160 from CrediAMIGO, a partner of ACCIÓN International. Correia, a soap maker and salesman, began his business selling two-liter bottles of homemade soap from his bicycle, making door-to-door visits in his community. With the microloan, Correia acquired additional supplies, allowing him to produce more soap and expand into three nearby villages. Monthly profit has increased from $150 to nearly $240.
- Microfinance creates jobs not only for the entrepreneurs, but for members of their communities that are hired to work for the microenterprises. New York resident Stephanie Mack had been working in the health care industry for 25 years when a new federal law that required health care providers to follow stringent document destruction policies went into effect. Seeing the opportunity for a new business venture, Mack founded Just-N-Time Dynamics (a shredding and media destruction vendor) in 2001 and set up an office in the Bronx with a $25,000 loan from ACCIÓN New York and New Jersey. After seven years in business, the company holds contracts throughout New York. Mack employs six Bronx residents, including college and law school students, as well as high school graduates working to provide for their families.
- The social transformation of economically powerless people is a remarkable outcome of microcredit/microfinance. The majority of microfinance clients are poor women. Many of these women report that after receiving microloans, they feel empowered to make a better life for themselves and their children in spite of the often male-dominated economies and oppressive social conditions in which they find themselves. For example, Dalila Rosa Ariza Garavito, a client of ACCIÓN International partner Fundación Mario Santo Domingo in Bogotá, Colombia, received a microloan of $3,366 to establish a clothing line and store. A local microenterprise development program trained her in crafting garments and taught her business concepts. She says, "I have realized that I can depend on myself, be independent and make a name for myself. With my economic contribution, we are starting to get ahead." Because women represent the greatest source of untapped potential in the developing world, improving the economic status of women has an immediate ripple effect through the community and a lasting imprint on future generations. Domestic MFIs report 42% of female clients moving above the poverty line after 18 months of woman-focused business training.

In Kenya, Helen Otieno's first loan from Opportunity International allowed her to buy two sewing machines for $182 and rent a small storefront in the open-air market. Subsequent loan funds bought a third sewing machine and enabled her to hire two employees.

Source: Opportunity International, African Clients, www.opportunity.org
Source: MicroBanking Bulletin (CGAP)

- Microfinance instills in its clients and their dependents generational financial knowledge and responsibility. Opportunity Fund, a San Jose-based MFI, offers clients Individual Development Accounts (IDAs), which are matched savings accounts. A 2007 study indicated that 70% of IDA graduates, two years after completing the program, had opened savings accounts for their children. Also, 75% had continued their own savings after leaving the IDA program.
- The percentage of administrative and fundraising expenses versus program services is a key indicator of efficiency for nonprofit organizations and NGOs. MFIs generally have relatively low expense ratios. Gifts and investments made to implementing organizations are, in effect, recycled in perpetuity. In developing countries, roughly 98% of the loans that are made are repaid and re-lent over 10 years. Thus, an initial 15-20% administrative expense averages out to less than 2% annually.

MEASURING IMPACT – UNRESOLVED CHALLENGES

When microcredit and microfinance institutions first began lending money to poor entrepreneurs, the initial challenges were trying to reach the poorest and most isolated clients and collecting loan payments. Now the challenges include diversifying the financial product offerings, lowering costs, creating scalable, replicable and sustainable programs, and measuring the social and financial impact of the MFI's operations. The latter challenge has proven to be the most difficult for both domestic and international MFIs. To date, there is no uniform and coherent set of performance measures and standards used by practitioners. In fact, most experts in the field are not able to definitely say how many people are being serviced by MFIs.

Here are several reasons why collecting comparison data and measuring the impact of microfinance programs has been difficult:

- Given the distinct political, economic and geographic challenges that MFIs face, microfinance has not developed evenly across regions and the length of time microfinance opportunities have been available varies country to country, in some cases by several decades. For example, in Bangladesh where the Grameen Bank has provided microfinance services for the poor since the early 1980s, roughly 9% of the population are microfinance borrowers. This percentage exceeds that of most other countries.[22]
- In rural communities where infrastructure, technology and education are often lacking, it has been difficult to gauge the success of microfinance and its long-term impact on the lives of those who use it.

Studies have shown that during an eight-year period, among the poorest in Bangladesh with no credit service of any type, only 4% pulled themselves above the poverty line. But of individuals and families with credit from Grameen Bank, more than 48% rose above the poverty line.

Source: Date Snapshots on Microfinance – The Virtual Library on Microcredit

- Experts point to the "quality gap" in financial services offered. In some communities, access to credit is the predominant opportunity. In other countries, borrowers have access to tailored loans, savings vehicles and insurance.[23]
- The local nature of MFIs means that many do not operate under regulatory supervisions. This makes it difficult to judge which nonprofit organizations, most of whom depend upon private donations, are sustainable.
- Performance data are largely self-reported and are therefore compromised, incomplete and cannot adequately be used in comparison studies.

Moreover, practitioners do not generally agree on the lens that should be used to assess performance. For example, one way to evaluate the success of a microfinance operation and its social impact is to focus on how access to credit has improved the life of the borrower (client-focused model). Measures can be as simple as checking whether a family can feed and clothe its members, send its children to school regularly and accumulate savings sufficient to last through an emergency situation.

Other practitioners focus on loan repayment rates, cost effectiveness and the financial viability of the MFI (institution-focused model). For example, Opportunity International measures financial independence and operational independence to determine if its banks are sustainable. These two approaches (client-focused and institution-focused) are not mutually exclusive. In most cases, MFIs measure institutional performance regularly and conduct client studies periodically.

As the microfinance industry seeks to maintain public support and compete in the larger philanthropic community, weak performance or lack of performance figures may undermine arguments about the value of microfinance as a means to advance economic development and social change. A few microfinance organizations have identified this apparent "Achilles' heel" and have either invested in technologies or partnered with policy organizations to address this issue.

In an effort to specifically track the social impact of microfinance, several proponents, namely the Grameen Foundation, the Consultative Group to Assist the Poor and the Ford Foundation, are supporting a new tracking measure called the Progress out of Poverty Index (PPI). This index is perhaps the most comprehensive assessment tool available. It allows statisticians and those working in the field to create baselines to compare poverty levels of individuals and among groups, within and across countries where microfinance clients are abundant. Similarly, the Microfinance Information Exchange (MIX), a nonprofit organization, evaluates international MFIs (in Africa, Asia and Latin America), collects data from the largest MFIs and posts these findings on its website.

In the United States, the Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) recently developed Microtest, a performance measurement tool designed to assist the industry's efforts to assess performance in a standard way.[24] Microtest helps organizations collect data on their clients with outcome studies to assess how their lives have improved as a result of a microloan. As Elaine Edgcomb, director of FIELD states, "this tool helps programs track change over time in clients with respect to such measures as business status, revenues, employment, owners' draw, contribution to household income and movement out of poverty."

Ultimately, to support claims that MFIs can be sustainable banks and contribute substantially to poverty reduction, microfinance advocates will need to provide more comparative and quantitative data to supplement anecdotal "self-empowerment" stories.

THE "DOUBLE-BOTTOM LINE" – SOCIAL RETURN v. FINANCIAL RETURN

The current movement in boardrooms and philanthropic communities toward social and financial accountability and achieving the so-called "double-bottom line," is ever-present within the field of microfinance. However, before moving to a discussion of the social and financial returns associated with microfinance, it is important to note that while there are generally accepted principles of accounting, there is not yet an accounting standard for measuring social impact.

As an economic development strategy, microfinance has been remarkably successful in achieving its social objectives despite certain reporting challenges. Access to collateral-free microloans and savings products gives highly motivated people in economically depressed areas the opportunity to improve their living conditions, participate more fully in the local marketplace and otherwise take control of their lives. Rather than accepting charity, microentrpreneurs create their own wealth. Studies have shown that the dignity of work and the ability to earn income is especially potent for poor women – entrepreneurship builds confidence in places where they may struggle against repressive social and economic conditions. In domestic and international communities, microlenders have become permanent fixtures in local economies, with a focus on economic development, job creation and financing grassroots enterprises that generate income and employment for poor people.

In the philanthropic community, microfinance has been described as "sustainable philanthropy" – a charitable gift in the amount of $100 can be transformed into investment capital for, as an example, a poor farmer who wants to buy new harvesting equipment. Working with an MFI, a donor essentially becomes an "investor" in small businesses. In fact, several practictioners now describe microfinance organizations as "social businesses." Dr. Yunus states that, "Philanthropic dollars have only one life. It [philanthropy] can work only once; but if you can convert the whole idea into social business, then it becomes an endless thing. It recycles. The dollar recycles, and you can improve it and reach out to more and more lives. It is very sustainable."[25]

Traditional banking institutions and commercial credit providers have long recognized that investing in financial services for the poor is more than just a philanthropic activity, and these institutions continue to deepen their commitment to the microfinance industry. For example, ShoreBank, founded in 1973 and specializing in the promotion of community development in low-income, Chicago neighborhoods, continues to help MFIs develop staff, improve processes and implement customized microloans for small businesses. The founders of ShoreBank are often credited, along with Dr. Yunus and Grameen Bank, with pioneering the concept of lending to low-income people. Similarly, Citigroup, which has been involved with microfinance since the 1960s, recently created a separate business group to integrate microfinance into its banking and investment branches.

A recent study found that 63 of the world's most successful MFIs had a net average rate of return of approximately 2.5% of total assets (excluding assets received from private and government funding sources). This rate of return compares favorably with returns in the commercial banking sector.

Source: MicroBanking Bulletin (CGAP)

In addition, technology is helping donors of modest means provide capital to entrepreneurs in developing countries. For example, a relatively new company, Kiva, is a microcredit clearinghouse and website that allows individuals to make loans to the working poor, invest in microenterprises and track how their investments are doing. During the loan period, lenders receive e-mail journal updates and are able to track repayments. Each Kiva contributor can choose to receive their loan payment back and then relend their dollars to other microentrepreneurs. Among other things, Kiva's website allows financial transparency and documents how having access to capital has made a tangible impact in the life of the borrower(s).

Increasingly, however, individuals and institutional investors are seeking substantial financial returns in addition to social returns on their microfinance investments. One industry response to this growing interest is Microplace, an online resource and affiliate of eBay that connects investors with global microfinance institutions looking for capital to make microloans. Microplace's mission – to help alleviate global poverty by enabling everyday people to make investments in the world's working poor – is similar to Kiva's mission. But in contrast to Kiva, Microplace investors receive principal and interest payments from the lending organizations (MFIs).

Given the need and demand for financial services in poor communities and the immense funding gaps that MFIs face, microfinance practitioners are now wrestling with how to balance what some fear has become two mutually exclusive priorities: sustainable and profitable microlending institutions and social change through economic development for the world's poor.

While most MFIs are organized as nonprofit organizations or NGOs, for-profit and commercial MFIs are rapidly emerging. These for-profit entities are run like traditional financial services companies and are held to different measurements of accountability to accommodate the financial interests of its owners. They are controlled by shareholders, who, in addition to promoting a social justice agenda, are motivated by profits and expect a significant rate of return on their investments.

One such company, Compartamos Banco in Mexico ("Compartamos"), began operating as a nonprofit in 1990 and provided group loans to poor entrepreneurs, mostly women, to fund their small businesses. In 2000, Compartamos began operating as a for-profit company and grew its client base from 60,000 to 600,000.[26] When Compartamos went public in 2007, its client base grew to approximately 900,000 (average loan is $450). Most remarkably, however, the shareholders of Compartamos are expected to earn returns of approximately 100% compounded annually for the next seven years.[27]

Compartamos' activities have caused a quite a stir in the microfinance community. Critics believe that Compartamos' for-profit model supports the interests of investors to the detriment of the poor entrepreneurs the company was founded to support. Some worry that an excessive concern for profit will cut social service and financial literacy programs. Others believe that MFIs will move away from poorer clients to serve economically self-sufficient entrepreneurs who want larger loans.[28]

In fact, the "commercialization of microfinance" was one of the primary discussion points at the most recent Asia-Pacific Regional Microcredit Summit in July 2008, which was held in Bali, Indonesia. Sponsored by the Microcredit Summit Campaign, the gathering offered participants (more than 1,000 microcredit practitioners, advocates, investors and donors from 40 countries) opportunities to assess progress in the field, discuss challenges and identify strategies for overcoming obstacles. As a featured speaker, Dr. Yunus addressed the dangers of shifting the focus away from poverty reduction toward investment returns. Dr. Yunus stated:

> If you build it up that there's a lot of money to make you can get a subprime kind of thing, but this time it's the really poor people who will be in trouble. When you are making profits you are moving into the mentality of the loan shark … We are trying to get that loan shark out.[29]

Dr. Yunus also urged participants to begin publicly reporting their annual interest rates and to set rates to cover costs, not maximize profits.[30]

With the industry's challenge to provide greater transparency and to adopt global reporting and truth-in-lending standards, the commercialization of microfinance will undoubtedly continue to be hotly debated. Many supporters of international microfinance programs believe this discussion is long overdue.

THE FUTURE OF MICROFINANCE

The work of MFIs in developing and developed countries will continue to raise global awareness and a great deal of hope for the future. The Clinton Global Initiative (CGI), since its inception in September 2005, has provided more than 270 MFIs with funding and has addressed microfinance as a key topic at its annual meetings. The CGI continues to concentrate on poverty alleviation as one of its four focus areas. Pierre Omidyar, founder of eBay, and his wife Pam recently gave $100 million to Tufts University to be used to develop international microcredit programs. And, British Prime Minister Gordon Brown recently pledged more financial support for microcredit programs in Africa and announced a partnership between the Department for International Development (U.K.) and Grameen Group.[31] In an April 2008 press release, Prime Minister Brown said:

> With foreign investment into microfinance across the globe tripling to $4 billion between 2004 and 2006, the impact of microfinance is being felt all over the world. There is an urgent need to improve business and management skills in the microfinance industry in Africa to make sure this money is used to help people from the world's poorest communities.

Given the popularity and success of the microfinance model, experts agree that the future of microfinance will, among other things, depend on the ability of MFIs to expand operations to meet the growing need for financial services for the world's poor[32] and tackle poverty from a more holistic viewpoint. For example, the Bangladesh Rural Advancement Committee (BRAC), a microenterprise, health and education initiative, operates economic development and relief programs in more than 70,000 villages in Bangladesh, 23 of the 34 provinces in Afghanistan, the seven worst tsunami-hit districts in Sri Lanka and three countries in Africa. Technical assistance

While critics and proponents of microfinance caution that providing financial services to the poor is not the ultimate cure for poverty, many believe that microfinance is one of the most important foundations for a lasting solution. Lydia Baldridge Meier, campaign manager for Opportunity International, suggests that communities require economic infrastructure before they can address needs in education, sanitation and health care. "If a community is going to emerge from poverty, it must put its assets to work for the entire community," she says. "Without economic infrastructure, all other endeavors will stumble."

Source: MicroBanking Bulletin (CGAP)

is now also provided in Pakistan, Haiti and India. (Studies show that in its almost 35 years of operations, BRAC has contributed to lifting more than 35 million people out of abject poverty, educating more than 3 million children and improving the health of at least 100 million poor people.) In addition, BRAC has demonstrated exceptionally sustainability, generating 70% of its annual budget from its own microfinance and business ventures.

Similarly, Justine Petersen, an MFI located in St. Louis, Missouri, applies a holistic, asset development approach to poverty alleviation. Offerings include financial literacy training, asset development through IDAs, credit reporting and mortgage assistance.

Several MFIs are entering into partnerships with for-profit businesses in what is being labeled as "social business" or "social entrepreneurship." Dr. Yunus' Grameen Bank, for example, runs a joint venture with Danone, a French food manufacturer, to produce fortified yogurt for malnourished children in Bangladesh. In the United States, there are a number of microenterprise organizations that have also developed social enterprises to deliver sustainable services for clients. Examples include Mountain Made, an artisans' store in Asheville, North Carolina, owned by Mountain BizWorks, and a coffee shop called Coffee with a Conscience run by the Wisconsin Women's Business Initiative Corporation in Milwaukee, which provides opportunities for clients to sell food and gift items, learn retail services and practice customer service skills.

In order to compete effectively for private donations and institutional investments, more MFIs will need to adopt and implement sustainable operational models and business practices, track the social and financial impact of their work, provide greater transparency among global microlenders, and continue to explore innovative solutions to reduce poverty.

International microfinance giants like Opportunity International and the Foundation for International Community Assistance (FINCA) may, in fact, be leading the way by establishing new MFIs, working toward sustainable models for their banks and providing research and results to support the case for raising more loan capital in developed countries. Domestically, MFIs like ACCIÓN Texas, one of the largest microlenders in the United States, will likely continue to influence the microfinance industry by investing in research and technology, expanding partnerships with other microlenders and helping borrowers grow their businesses and equip them to participate in traditional banking and credit opportunities.

"SUSTAINABLE" PHILANTHROPY/INVESTING FOR SOCIAL IMPACT – GETTING INVOLVED

In the following pages, we have included a list of several microfinance organizations and online giving resources, as well as several policy, research and advocacy organizations that support micro-entrepreneurs and the microfinance community. Many of these organizations provide experiential learning opportunities for individuals who want to explore domestic and international microcredit enterprises. Gail Bradley, senior wealth strategist at Northern Trust and advisor to the Weberg Foundation, believes these onsite learning opportunities help donors and volunteers get a true picture of how microfinance contributes to improving the lives of poor people. After a recent trip to Malawi with Opportunity International, she had the following reflection:

> [m]icrofinance clients maintain their dignity, enjoy the pride of accomplishment and experience hope for the future. I understood this intellectually but only after visiting the programs personally, and seeing the looks on their faces, did my heart fully comprehend the importance of helping the poor help themselves.

Whether you are seeking to make a one-time donation or considering a long-term commitment to microfinance organizations and microentrepreneurs, there are several questions you may want to ask yourself before you begin.[33]

- Do you want to support individuals, a group of lenders or grassroots organizations?
- Do you want to focus on reaching the poorest of the poor or supporting the working poor in your local community?
- Are you interested in solving a range of poverty-related problems, or would you prefer to concentrate exclusively on helping people increase their incomes and savings or economic development initiatives for rural or urban communities?
- Is there a particular type of person or groups of people you are motivated to help, such as women and families in rural communities, families whose homes and businesses have been devastated by natural disasters or chronic wars, or individuals who have been downsized or otherwise lost their jobs?
- Are you interested in a particular region or country? Similarly, are you interested in supporting domestic or international MFIs, or both?
- What is the cumulative amount of money you are willing to give to microfinance: microcredit organizations over the next few years?
- How will you measure the success of your gift/investment a year from now, five years from now?
- How important is the expectation that you will receive a return or profit on your investment?

As you begin to navigate the seemingly diverse and vibrant landscape of microfinance, the answers to these questions will help you assess your tolerance for risk and your expectations for social and financial returns.

Philanthropic contributions and investments are essential to support further growth and sustainability of existing microfinance operations. MFIs rely heavily on these contributions to fund innovations in technology and product development, information dissemination regarding best practices, institutional capacity building and economic development in the most vulnerable financial markets (usually found in countries with poor infrastructure and which are otherwise plagued with chronic droughts, famines and wars).

Opportunities to participate in the microfinance community as a donor, investor or volunteer are numerous and expanding every day. Based on our review of the microfinance field, here are several tips to help you find an entry point:

- **Prioritize education about global issues.** If your goal is to participate as a funder of international microfinance/microcredit programs, become educated about social and economic issues in the region(s) or country(ies) that you wish to support and the alternative strategies that governments, NGOs and MFIs are implementing to tackle widespread poverty. A few of the largest MFIs offer special exposure outings for donors who want to learn more about microlending programs and the economic and social conditions that affect microenterprise development. For example, Opportunity International offers Insight Trips for funders who want to see for themselves how microlending works.
- **Work directly with local microfinance providers.** Look for and work directly with the best local microcredit providers in the region(s) you want to support. Many of these organizations will have strong managment teams and will have developed public-private partnerships with other social service organizations and local governments that are implementing industry best practices. In many cases, your philanthropic investment will have the greatest impact if you target and make direct contributions to small effective organizations in developing countries. However, there may be legal, tax and regulatory restrictions that will affect your contribution. Moreover, finding and evaluating the best local MFIs may require site visits and a great deal of research.
- **U.S.-based v. foreign charities.** If you want to support non-U.S.-based international organizations, you may face legal, tax and regulatory challenges (with making gifts overseas). For example, in an effort to limit terrorism, drug trafficking and money laundering and to enforce U.S. sanctions, the United States Office of Foreign Assets Control (OFAC) has put restrictions on charitable contributions and investments that are earmarked for certain countries. The OFAC list is updated periodically and should be consulted before initiating any money transfers to foreign countries. Local governments may have further guidelines for foreign contributions that may restrict how your contribution is used. An alternative may be to make contributions to a U.S.-based nonprofit organization that operates exclusively in the area(s) you want to target.
- **Be familiar with the values, missions and financial histories of microfinance organizations.** Many MFIs are faith-based organizations; some MFIs want to reach the poorest of the poor; others seek to assist the working poor or moderate-income entrepreneurs; some MFIs focus on creating sustainable banks for the poor. These objectives do not have to be mutually exclusive. But it is important to choose an organization that aligns with your values. Also, many MFIs

fund economic development programs that cross several segments of a country's poorer communities. In many cases, these organizations are approaching self-sufficiency, and many rely heavily on philanthropic and government subsidies.

- **Gift v. loan.** Do you want your philanthropic investment to be characterized by the donee organization as a gift or a loan? The tax effects and reporting requirements of donations versus loans may vary dramatically. If you are considering making a substantial gift/investment, you may want to consult your financial advisor or accountant, who can advise you regarding the tax benefits of your gift/investment.
- **Allocation of investment.** Determine how much of your contribution you want to go directly to providing microloans and how much to sustaining the microfinance institution(s) that operate the microfinance or microcredit program. Understand that, given the nature of the services and programs offered and the size of the organization's loan portfolio, the administrative expenses of these institutions may be much higher than traditional nonprofit organizations.

While domestic and international MFIs still face substantial challenges, the benefits of this approach to poverty reduction are clear. Microfinance plays a unique role in building intangible assets of human dignity and personal agency. Self-employment continues to be the most viable way for billions of poor people to earn income, and they will continue to need capital to support their small businesses. Microfinance serves as a vanguard in establishing a financial infrastructure in unbanked areas, which is an essential factor of community and economic development, in addition to education, healthcare, sanitation and other types of infrastructure. Experts believe that as microfinance increasingly becomes a part of mainstream, regulated financial systems, and as delivery channels and service providers become more accessible and diverse ("social-banking" divisions of commercial banks, credit unions), philanthropists, socially responsible individuals and institutional investors will have more opportunities to invest in "start-ups" and existing microfinance organizations and the microenterprises they support.

Using microfinance as a way to invest in local and global entrepreneurial efforts and small business development can be a daunting, yet rewarding undertaking. The social and economic impact of your commitment may be immediately apparent or take years to adequately evaluate. The microfinance industry continues to evolve. Be flexible and be cautious while you seek to do well by doing good.

> [M]icrofinance can play a huge role in helping a poor community find ways through the market to get new opportunities, to earn new income, to start saving, making investments and start the process of climbing the ladder of economic development in your children, in your business or your farm and continuing up the process of improving skills, specialization, new business ventures and so on. We've learnt that microfinance can be a wonderful tool for that.
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> **–Jeffrey Sachs**
> *The Earth Institute at Columbia University, director*

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DOMESTIC AND INTERNATIONAL MICROFINANCE ORGANIZATIONS

ACCIÓN International – ACCIÓN is a not-for-profit organization with more than 45 years of experience in the field of international economic development. The mission of ACCIÓN International is to give people throughout the developing world the tools they need to work their way out of poverty by providing microloans, business training and other financial services. www.accion.org

ACCIÓN USA – A need for institutions to serve small businesses that lacked access to traditional sources of financing in the U.S. spurred the founding of ACCIÓN USA in 1991. Including ACCIÓN USA's offices in Atlanta, Boston and Miami, the ACCIÓN network is the largest of its kind in the United States. Institutions bearing the ACCIÓN name in Chicago, New Mexico, New York, San Diego and Texas have no financial connection to ACCIÓN USA other than the use of its highly recognizable name. www.accionusa.org

Catholic Relief Services – The mission of Catholic Relief Services, founded in 1943 by the Catholic Bishops of the United States, is to assist impoverished and disadvantaged people overseas. CRS microfinance programs target the self-employed poor and are designed to strategically target women. The organization has a network of programs in more than 36 countries supporting both formal microfinance institutions and a range of community-based, savings-led initiatives. www.crs.org/microfinance

Foundation for International Community Assistance (FINCA) – FINCA is an international not-for-profit organization whose mission is to provide financial services to the world's lowest-income entrepreneurs. A self-declared "banker with a soul," FINCA strives to be a global microfinance network serving more poor entrepreneurs than any other MFI while operating on commercial principles of performance and sustainability. www.villagebanking.org

Freedom From Hunger – Based in Davis, California, Freedom from Hunger is an international development organization working in 17 countries and offering poor women in Africa, Asia and Latin America a combination of microfinance, knowledge and health protection in an effort to bring sustainable answers to global hunger. In 1946, Freedom from Hunger began as Meals for Millions, the organization that introduced a high-protein powdered food supplement used in relief efforts around the world. Freedom from Hunger brings microfinance and life skills training to women's groups in rural and remote villages. Its Credit with Education initiative, an integrated microcredit/health and nutrition program, helps women earn more money and use their new knowledge to safeguard their families' health. www.freedomfromhunger.org

Good Work Network – The Good Work Network is a grassroots domestic MFI primarily serving African-American women in New Orleans, 85% of whom are considered low-income. Having recently acquired a 100-year-old historic building in the Central City neighborhood, a historically African-American shopping district, and grants totaling more than $65,000 for renovations, Good Work Network has positioned itself in a leading role as New Orleans continues to rebuild following the devastation caused by Hurricane Katrina. www.goodworknetwork.org

Grameen Bank – Grameen Bank was founded by Dr. Muhammad Yunus in Bangladesh in 1983. Borrowers of Grameen Bank, who are 97% women, own 95% of the total equity of the bank with the remaining 5% owned by the government. One of the world's leading MFIs, Grameen bank serves 6.7 million borrowers with a loan portfolio of $532 million. www.grameen-info.org

Justine Petersen – Justine Petersen, a community-based domestic MFI named for Justine Petersen of St. Louis, Missouri, was created in 1997 to connect institutional resources with the needs of low- to moderate-income families and individuals in St. Louis. Justine Petersen partners with local financial institutions and government to help low-income and moderate-income individuals and families get mortgages and business loans, and counsels people about homeownership and financial management. www.justinepetersen.org

Kiva – Kiva is a person-to-person microlending website, linking donors directly to entrepreneurs in the developing world. Matt and Jessica Flannery created the not-for-profit organization in San Francisco in 2005. Kiva partners with MFIs worldwide, which vet and approve loan applications. Approved loans are posted to the Kiva website for funding. Users choose an entrepreneur and loan amount based on an internet profile. When the loan has been repaid, lenders receive funds back into a Kiva account to be withdrawn or reloaned. By 2010 Kiva will have facilitated loans totaling $100 million. www.kiva.org

MicroPlace – MicroPlace is a for-profit company owned by eBay, the worldwide online marketplace. The website connects investors with microfinance institutions seeking funds to increase their loan portfolios. Users purchase investments on MicroPlace from security issuers, who are responsible for making interest and principal payments to the investor. Security issuers loan the funds to MFIs, who then use those funds to provide loans to borrowers. As loans are repaid, security issuers are able to provide a financial return. www.microplace.com

Opportunity Fund – Opportunity Fund, based in San Jose, California, helps clients join the financial mainstream through education, microfinance loans, matched savings accounts and housing financing. Started in the early 1990s as Lenders for Community Development, Opportunity Fund's unique contribution to domestic microfinance is operation of its Individual Development Accounts (IDAs), which are matched savings accounts – like a 401(k) – designed to help low income families build a particular asset, such as a college education, a business or a home. Assets for All Alliance, the nation's largest regional IDA program, is operated by Opportunity Fund. www.opportunityfund.org

Opportunity International – Founded in 1971, Opportunity International, based in Oak Brook, Illinois, is one of the largest international MFIs. Opportunity International provides financial services and business training to 1 million entrepreneurs annually in 28 countries and insures more than 3.3 million lives and providing savings accounts to over 300,000 people. In 1992, Opportunity International began its Trust Bank group loan program across countries and cultures. The model accounts for nearly 90% of its loans and has been adapted by MFIs around the world. www.opportunity.org

Pro Mujer – Pro Mujer is an international microfinance and women's development network whose mission is to provide the poorest Latin American women with microfinance products, business training and healthcare support. Pro Mujer MFIs in Argentina, Bolivia, Mexico, Nicaragua and Peru provide services to groups of 18 to 28 women each. Prior to providing first loans, each association elects a board, forms solidarity groups to guarantee each member's loan and articulates a business plan. All clients are required to save a portion of their income as a buffer against emergencies and illness. Pro Mujer health staff provides ongoing education in good health practices and the importance of primary health care. www.promujer.org

POLICY, RESEARCH AND ADVOCACY ORGANIZATIONS

Aspen Institute – The Aspen Institute is an international not-for-profit organization headquartered in Washington, D.C. and dedicated to fostering enlightened leadership and dialogue. Its FIELD program, the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination, has as its mission to identify, develop and disseminate best practices in the microenterprise field, and to educate funders and policy makers about microenterprise in the United States. www.fieldus.org. FIELD sits within the Institute's Economic Opportunities Program (EOP), which lends assistance to the people who help the poor escape poverty. The program provides practical tools, training, and information to organizations that help low-income individuals start businesses and build wealth. www.aspeninstitute.org

The Association for Enterprise Opportunity – The AEO of Arlington, Virginia is a national leadership organization and voice of microenterprise development. By providing training, knowledge sharing, Federal and State public policy and advocacy and communications, AEO empowers a community of nearly 500 member organizations to be effective in serving the needs of microentrepreneurs. www.microenterpriseworks.org

Bill and Melinda Gates Foundation – The Bill and Melinda Gates Foundation, a leader in the philanthropic community, has demonstrated a sincere commitment to microfinance through the Financial Services for the Poor Initiative in its Global Development Program. Numerous grants help fund MFIs and continue to build research on microfinance as a solution to extreme poverty. www.gatesfoundation.org

Consultative Group to Assist the Poor – CGAP is a consortium of 33 public and private development agencies and a leading resource for objective information, expert opinions and innovative solutions for microfinance. Housed at the World Bank but operating as an independent entity, CGAP works with the financial industry, governments and investors to expand access to financial services for poor people around the world. www.cgap.org

Grameen Foundation – Founded in 1997 by a group of friends who were inspired by the work of Grameen Bank, the Grameen Foundation is a global network of 55 MFIs. Based in Washington, D.C., the foundation supports MFIs with funding, technical assistance and training. GrameenFoundation's Technology Center in Seattle drives information and communications technology initiatives dedicated to increasing the efficiency of microfinance institutions' operations. Grameen's Capital Management and Advisory Center works to harness the resources of local and international capital markets to bring new financial resources to microfinance partners. www.grameenfoundation.org

International Association of Microfinance Investors (IAMFI) – IAMFI provides investors with access to credible information, a forum for interaction with fellow investors and an advocate to represent their interests in the microfinance community. www.iamfi.com

The MicroCapital Monitor – The MicroCapital Monitor is a monthly market report on microfinance capital markets and microfinance in general. Editions include news briefs from around the world, summaries of industry research, a calendar with contact information for upcoming events, and detailed profiles and interviews of prominent individuals working in the field of microfinance. www.microcapital.org

Microfinance Gateway – The Microfinance Gateway is a comprehensive online resource for the global microfinance community. It includes research and publications, discussion groups, featured articles, organization and consultant profiles, latest news, events and job opportunities in microfinance. Its mission is to advance knowledge and encourage innovation within the microfinance industry. www.microfinancegateway.org

Microfinance Information Exchange (MIX) – Incorporated in June 2002 as a not-for-profit private organization, MIX aims to promote information exchange in the microfinance industry. The MIX mission is to help build the microfinance market infrastructure by offering data sourcing, benchmarking, and monitoring tools, as well as specialized information services. MIX promotes financial transparency in the microfinance industry and helps build the information infrastructure in developing countries, a key challenge for the microfinance industry. www.themix.org

Microfinance Network – MFN is an international association of leading microfinance institutions. Through the MFN, 37 members from 31 countries share ideas, experiences and solutions to the challenges they face in search of growth and progress in the field of microfinance. They share the common belief that a MFI can serve more clients by establishing a sustainable and profitable institution. www.mfnetwork.org

Microfinance Opportunities – Microfinance Opportunities is a Washington, D.C.-based resource center that seeks to increase poor people's access to well-designed, well-delivered financial services. Microfinance Opportunities focuses its initiatives in research, training and technical assistance on three fundamental themes: financial education, microinsurance and client assessment. www.microfinanceopportunities.org

Microtest – MicroTest, an initiative of FIELD of the Aspen Institute, is a management tool that helps microenterprise practitioners gauge and improve the performance of their programs and the outcomes of their clients. MicroTest offers its clients performance measurement tools to assess program performance, consulting and reports on performance. www.fieldus.org/microtest

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FOOTNOTES

1 Aneel Karnani, "Microfinance Misses its Mark," *Stanford Social Innovation Review* (Summer 2007). www.ssireview.org.

2 There is evidence to show that as the field of microfinance grows, investors may expect returns that are meaningful. A 2007 Deutsche Bank Research report called microfinance "an emerging investment opportunity" that "allows investors to adopt an investment strategy geared toward poverty alleviation while, offer(ing) an attractive risk-return profile." Preliminary evidence shows that, as a socially responsible investment, microfinance investments offer largely stable returns, low credit default rates and low correlation to the mainstream financial assets as well as the general domestic economy. The report found that in 2006, the leading 176 MFIs exhibited consistent returns on investment (RoE) of 17.2%, which in some countries is higher than that of conventional banks.

3 "Poor" as a relative concept, generally refers to those who make less than their country's national poverty line, and "poorest" to those in the bottom half of those under the poverty line. "Working poor" is commonly used to describe individuals and families who maintain regular employment but remain in relative poverty due to low levels of pay and dependent expenses.

4 Some of the larger individual loans have a collateral requirement although it is usually nontraditional collateral.

5 The average global rate of interest for microloans is 35%, substantially higher than the traditional banking system. This is because of the higher cost of administering loans due to the small scale and weekly loan repayment schedules.

6 ACCIÓN International, www.accion.org.

7 Opportunity International, *Banking on Africa* (April 2008).

8 MicroLoan Foundation, www.microloanfoundation.org.uk. Loans to small groups of entrepreneurs, or Trust Groups, account for 86% of the loan portfolio of Opportunity International, a leading international MFI. The actual group members play a larger role in determining potential borrowers. They are in the best place to know who is a hard worker, who has a business that their community needs, and who is likely to fail. They will not let someone into their group who has a bad business or poor work ethic. The group-guarantee component makes self-governance a powerful and effective feature. See Opportunity International, *Banking on Africa* (April 2008). Using this model, Grameen Bank and Opportunity International have reported repayment rates above 98%.

9 Stuart Rutherford, *The Poor and Their Money*, Oxford University Press (2001). Rutherford cites several types of needs people in developing countries encounter in his book: lifecycle needs: weddings, childbirth, education; emergencies: illness, unemployment, theft; disasters: floods, drought; and investment opportunities: buying land, equipment.

10 Robert A. Guth, "Philanthropy: Giving a Lot for Saving a Little; Gates Foundation to Invest in Programs to Help Collect Deposits for the World's Poor," *Wall Street Journal* (July 31, 2008), p. A11.

11 Many MFIs offer informal savings mechanisms, but only a few are regulated financial institutions that can offer each client an individual, official and secure savings account.

12 U.S. Census Bureau, www.census.gov/hhes/www/poverty.

13 See Population Reference Bureau, available at www.prb.org.

14 Lillian G. Woo, F. William Schweke and David E. Buchholz, "Hidden in Plain Sight: A Look at the $335 Billion Federal Asset-Building Budget," *Assets Newsletter*, CFED (Washington, D.C., Spring 2004).

15 FIELD Funder Guide, September 2005.

16 For the last four years, ACCIÓN USA has received Fast Company's Social Capitalist Award for "changing the world by using entrepreneurial genius to solve some of the most daunting social problems."

17 Gina Neff, "Microcredit, microresults," *Left Business Observer* #74 (October 1996).

18 See generally, Aneel Karnani, *supra* note 1.

19 Anne Marie Goetz and Rena Sen Gupta, "Who takes the credit? Gender, power and control over loan use in rural credit programs in Bangladesh," Institute of Development Studies, Brighton UK, July 1995.

20 See LABORSTA Internet database, www.laborsta.ilo.org, International Labour Organization.

21 For an example, see Aneel Karnani, "Microfinance," 36 (see n. 1).

22 Elisabeth Rhyne and Maria Otero, "ACCIÓN, Microfinance through the Next Decade: Visioning the Who, What, Where, When and How," Global Microcredit Summit (November 2006).

23 Ibid, n. 22.

24 For more information, see FIELD Funder Guides, The Aspen Institute, Washington, D.C., www.fieldus.org. See also, www.microtest.org.

25 Janet Attwood and Robert G. Allen, "Dr. Muhammad Yunus, Everyone is Bankable," www.healthywealthynwise.com (July 2008).

26 Mary Anastasia O'Grady, "Markets for the Poor in Mexico", *Wall Street Journal* (June 30, 2008), p. A11.

27 Ibid.

28 The evolution of Compartamos from a nonprofit microlender to a for-profit banking institution is no longer unique. As MFIs and the markets where they operate continue to mature, private investors, including hedge funds, view microfinance institutions as sound, profitable businesses. And, given that charitable contributions are unpredictable or limited, many MFIs are eager to gain access to private capital sources to finance expansion efforts. These partnerships will necessarily require MFIs to adopt more profit-oriented business models.

29 Tom Burgis, "Microfinance Commercialization Warning," *Financial Times* (July 29, 2008).

30 Erika Kinetz, "Microfinance Comes Clean with Rates," Associated Press (July 28, 2008); see also, Diana Yang, "MicroFinance Transparency to Publicize Microfinance Institution Rates & Fees," *Business Week* (August 6, 2008).

31 The Grameen Group promotes access to microfinance funds and expertise through its subsidiaries in banking, education, energy, telecommunications and apparel sectors. In 2005, the Group reported a net income for the year of $112.4 million. Its loan portfolio stood at $439 million with 5.58 million borrowers in 59,912 villages in South Asia.

32 For example, South Asia, which is considered the birthplace of microfinance, still has approximately 200 million poor and low-income households that do not have access to financial services.

33 For a further discussion of due diligence considerations, see Phil Smith and Eric Thurman, *A Billion Bootstraps – Microcredit, Barefoot Banking, and the Business Solution for Ending Poverty*, McGraw Hill, 2007.

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