Forward

Alex Counts

The field of microfinance has come a long way. It was not long ago that the idea of simply recovering the lion's share of the principal was a remarkable achievement when extending credit to the poor. Doubts persisted up until recent years whether microfinance could be scaled up in countries other than Bangladesh, Indonesia and Bolivia. The empirical case for microfinance as a robust approach to poverty reduction was long perceived to be flimsy. The beliefs that the poor and especially the poorest could save and that microfinance institutions (MFIs) could be good stewards of that savings and intermediate these resources were not widely held.

Today, it is not uncommon for MFIs and their constituent branch offices to become fully profitable within twelve to twenty–four months of commencing operations. Public offerings of MFIs have begun and will continue. A growing number of countries that had lagged behind the leaders have seen an explosion of outreach, due in large part to the Microcredit Summit Campaign's efforts and the increasing availability of significant amounts of local currency financing. Especially noteworthy has been the growth of quality micro-financial services in India, Morocco and Peru. More than 90 impact studies, compiled and analyzed for the first time in Grameen Foundation's "Measuring the Impact of Microfinance: Taking Stock of What We Know," have validated the fact that microfinance has a strong and improving poverty-reduction track record. Access to microsavings is growing in places where regulators and technology create a favorable environment, which meets a key need of clients and also MFIs starved of low-cost local currency for on-lending.

The microfinance movement is facing a new set of challenges that will determine the extent to which it becomes a permanent fixture of the global financial sector and contributes to the achievement of the Millennium Development Goal of cutting absolute poverty in half by 2015.

In order to deliver on its potential as a true "double bottom line" social business, microfinance must become as rigorous in measuring and managing its social impact as it has become on tracking MFI-level financial performance. This is critical for several reasons. First, it will attract new social investors who demand data rather than anecdotes. Second, it will allow for meaningful social performance standards and

---

Alex Counts is the President of the Grameen Foundation. Mr. Counts has more than two decades experience in microfinance, starting as a Fulbright scholar at Grameen Bank in Bangladesh. In 1997, he founded Grameen Foundation, a dynamic, nonprofit that fights global poverty through 51 microfinance partners in 23 countries in the Americas, Asia, Africa, and the Middle East.

benchmarking, which will in turn improve performance and give rise to empirically based best practices. Third, it will improve the public image of microfinance, which has been undermined in recent years by (a) the perception that MFIs exploit the poor (by virtue of charging them market interest rates) and (b) the high profits earned by some institutions as well as their executives and investors.

MFIs must also leverage their relationships with their clients in new and creative ways. In the aggregate, the microfinance sector serves more than 120 million families, representing the most successful effort in history at organizing the world's poor. Today, most of those families receive only credit, usually a product designed for working capital needs of high turnover businesses like trading. The infrastructure and relationships that have been created in the process can be used to provide savings and insurance products (especially savings and insurance) as well as more flexible credit options.

In addition, non-financial products can be provided at a fraction of the cost of delivering them through an independent infrastructure. To date, examples have included micro-franchises ("businesses in a box"), health education, health services, educational scholarships, adult education, tools and information related to political empowerment, and promotion of renewable energy. Among other benefits, this will make MFIs "sticky" to their clients, as one leader recently told me, and make them less likely to be lost to purely commercial providers of microfinance — institutions whose poverty impact, if any, is incidental rather than intentional. Marge Magner, a former senior executive at Citibank, wrote a compelling paper on the potential of this approach that was titled "Microfinance: A Platform for Social Change," that is available for free download from the Grameen Foundation website in English and Spanish.

Microfinance must also become more pro-consumer in three ways in order to enhance its reputation and its overarching social purpose. Costs must be reduced and the bulk of the savings passed on to clients in the form of reduced interest rates and fees, and providing enhanced non-financial services. In addition, those costs must be fully disclosed to clients in terms that allow the poor to make meaningful comparisons about competing loan products from different institutions. Finally, MFIs that claim to be "double bottom line" in nature (rather than profit maximizing) should build in ways for clients to share in any windfalls that result in public offerings.

This is a challenging agenda, especially as purely commercial investors play an increasingly important role in financing the expansion of the sector. However, I believe that maximizing poverty impact is fully consistent with, and in fact reinforces, the long-term profitability of microfinance. The articles in this edition push the frontiers of our knowledge of microfinance and the frameworks we use to analyze its effectiveness and potential. I encourage everyone who has an interest in living in a world where abject poverty can only be found in museums to read them carefully and reflect on their implications.