ONE

The Growth and Commercial Evolution of Microfinance

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Defining Microfinance

Microfinance seeks to provide *financial services* for that segment of the population in the developing world that does not have ready access to formal financial services. This population is often called the *underserved.* These are primarily the working poor, many of whom live on one or two dollars a day and are either self-employed or operate a microbusiness. Many wage earners are also very poor, and though not self-employed or operating a microbusiness, also need such financing. The working poor also need a safe place to save. Most of these people work in the informal sector, which in poorer countries may comprise 80 percent or more of employment. Poor people have a number of ways to secure financing—from family and friends, from money lenders, and from traditional financing schemes such as ROSCAs (rotational savings and credit associations, which are well known in Africa). However, they usually have not had access to formal financial institutions such as banks either for borrowing or, perhaps more important, as a safe place to save.

With few exceptions, microfinance has not served the very poor or the poorest of the poor living below two dollars a day. Some institutions such as the Bangladesh

Rural Advancement Committee (BRAC) have experimented with programs that assist the poorest to move this population up the poverty scale to the point where they become more self-sufficient and can then draw down microloans.

Microentrepreneurs are often self-employed with very few employees or unpaid apprentices. They are also characterized as family businesses; that is, the family is dependent on them for housing, food, health care, education, and other basic services such as electricity and water, if they are available. If the business has employees, it is likely to employ family members.

Microfinance has traditionally referred to microcredit or small working capital loans delivered to the working poor by community-based financial institutions known as microfinance institutions (MFIs). MFIs can be not-for-profit or nongovernmental organizations (NGOs), the majority of which are credit and savings co-operatives, credit unions, nonbank financial institutions, or commercial banks, the latter as a result of NGOs transforming into commercial banks. In recent years, larger commercial banks have downstreamed into microfinance and have become active in the sector, particularly in Latin America. While microfinance has traditionally been credit driven, as MFIs have transformed and become regulated they have increasingly attracted savings deposits. It turns out that the poor may need to save as much as or more than they need loans.[1] In addition to working capital loans, borrowers have also tapped microloans for other purposes—for example, to smooth erratic cash flows or to finance a family wedding or funeral.

In time, MFIs that have scaled up have also provided other financial products and services such as money transfers, remittances, housing finance, loans for education and microinsurance, and small-business loans. Because these diverse products and services, other than savings, constitute at present only a small part of the portfolios of most MFIs, donors and other funders are talking increasingly about financial inclusion as more relevant to the needs of the working poor. Financial inclusion seeks to extend financial services for the poor to include bank accounts, digital payment systems, loans for poor rural populations for water and irrigation, and solar energy, as examples. As such, microfinance is increasingly viewed by donors and investors as a subset of financial inclusion. Chapter 13 by Jennifer Isern discusses financial inclusion and the rapid expansion of financial services to India's poor. Several other chapters in this book also address financial inclusion.

Four Main Phases of Development

The forty-year path of microfinance to its current position encompasses four key phases with several critical components: (1) developing the business model and demonstrating profitability and scalability; (2) developing a deep supporting ecosystem and institutional capacity; (3) "cracking" mainstream international capital markets; and (4) transformation and commercialization—for example, NGOs converting to commercial MFIs such as nonbank financial institutions and commercial banks; the latter are largely regulated and licensed to mobilize deposits. Understanding this path and these factors can help highlight what features must be protected and preserved and what may be required for other aspiring social impact business models to gain traction, whether in deepening and leveraging microfinance itself or outside the sector.

A main leitmotif throughout has been the importance of targeted subsidies. More than the success of microfinance on purely commercial terms, the role of subsidies—not for market-distorting price reductions, but rather for innovation, benchmarking, and infrastructure and capacity building—is perhaps the most salient feature of microfinance in fostering emerging business models that aim for social impact. Over time, however, the subsidy element in microfinance has diminished considerably, and most commercialized MFIs operate at present without substantial subsidies.[2]

Developing the Business Model and Demonstrating Profitability at Scale

In the 1980s through the mid-1990s, when microfinance spread throughout the developing world as well as the transition economies of Eastern and Central Europe, the former Soviet Union, the Balkans, Vietnam, and China, microfinance was provided largely by NGOs. Muhammad Yunus, the founder of Grameen Bank in Bangladesh, is credited as being the founder of the industry or sector.[3] If the public knew anything about the sector, it knew of or had heard of Grameen Bank. Industry insiders talked about the potential of the industry based on the experience of three prominent institutions: Grameen, Bank Rakyat Indonesia, and Banco Sol in Bolivia. Most of the other microfinance institutions were relatively small not-for-profit or nongovernmental institutions operating in a particular region of a country.

During this initial phase, few institutions were taking what Marguerite Robinson called a "financial systems approach" to microfinance.[4] But a few pioneering MFIs began charging fees and microcredit interest rates that, together with keeping loan losses in check, brought in enough revenue to cover all their costs—this was defined as self-sufficiency—while simultaneously ensuring affordability for their clients. In the 1980s, the state-owned Bank Rakyat Indonesia (BRI), was the first to profitably operate a large-scale microfinance banking system, through some 3,000 *uni desas* (village units) with millions of clients, without relying on donors. BRI succeeded by leveraging its ability to take deposits from its clients and turning its clients' deposits into microloans.[5] These institutions at the forefront proved that MFI financial viability was possible without the charity of donors, laying the basis for commercialization of the industry to truly take off by the mid-1990s.

MFIs are the retailers of financial services to the working poor. They provide loans, primarily working capital loans, in small amounts and of relatively short duration to their clients. Regulated MFIs, which operate largely as commercial banks or nonbank financial institutions, are able to attract savings. This has two important advantages: it lowers the cost of capital for MFIs, and it provides a safe place for the poor to save. Credit unions and co-operatives also attract deposits (especially in West Africa, where they are modeled on the French financial system and the massive credit union system in Canada).

An important feature of the microfinance industry is its appeal to social entrepreneurs who have focused on building their institutions. Microfinance is a bottom-up initiative, begun for the most part by social entrepreneurs such as Muhammad Yunus. Many others have been instrumental as well, including Faisal Abed, who created BRAC in Bangladesh, one of the largest and most successful MFIs as part of one of the most successful national NGOs in the world; Ella Bhatt of SEWA Bank in India; Carlos Daniel and Carlos Labarthe of Compartamos in Mexico; and Kimanthi Mutua of K-Rep Bank and James Mwangi of Equity Bank in Kenya.

What Is Commercial Microfinance and How Has It Evolved?

Throughout the late 1990s and to the present, MFIs have commercialized and have also become regulated by national banking supervisors. They may fall under general banking regulations or special regulations governing the microfinance sector.

By commercial microfinance, we mean MFIs that meet the following criteria:

- They are structured as shareholder-owned institutions.
- They seek to and in time do operate profitably, offering their investors an acceptable return on investment.

- They raise their funds in commercial markets in a variety of ways.

- They operate as regulated nonbank financial institutions or commercial banks.

- They are increasingly expanding their product offerings to such products as savings, insurance, money transfers, housing improvement loans, and small-business loans.

- Successful MFIs have been able to scale up and serve increasing numbers of the working poor, while also operating profitably. That is what we call the double bottom line: serving the poor while also operating in a sustainable manner. Some institutions now talk of the triple bottom line, which means being ecologically sustainable as well.

Once they were able to demonstrate profitability, MFIs such as Banco Sol in Bolivia, K-Rep in Kenya, and Acleda in Cambodia took the next step, transforming from charitable NGOs into commercial banks. Gaining access to deposits and attracting commercial investors resulted in explosive growth for many MFIs. See box 1-1 on the transformation, commercialization, and explosive growth of Acleda Bank in Cambodia.

In 1994, the U.S. Agency for International Development (USAID) commissioned a team to prepare an assessment of leading microfinance institutions. The resulting report was a seminal work on microfinance that examined eleven leading MFIs at the time. The study asked a series of questions about microfinance, several of which continue to be examined by the industry as it focuses increasingly on commercialization.

- How are outreach and financial viability related? Does serving the poor preclude achievement of financial self-sufficiency?

- If we wish to ensure that micro-enterprise finance reaches even the very poor, must we expect to support institutions that cannot become financially independent of donor subsidies?

- How financially viable can micro-enterprise finance institutions be? Can they reach commercial standards? Consistently or only in limited settings?

- What factors are necessary for the achievement of strong outreach and financial viability?

- What are the challenges facing frontier institutions, as well as the challenges facing institutions that have not yet reached the frontier?[6]

BOX 1-1. Acleda Bank Plc., Cambodia: Transformation to a Commercial Bank

"Acleda Bank's vision was to be Cambodia's leading commercial bank, providing superior financial services to all segments of the community." Acleda originated from the tragedy that befell Cambodia with the assumption of power by the Khmer Rouge in 1975. The International Labour Organization (ILO) and Care International recruited the company's management from refugee camps on the Thai-Cambodian border. The program's initial aim was to develop local economic development agencies (LEDAs). Acleda was the association of these independent regional agencies. In 1996 a liquidity crisis forced Acleda to decide between providing business development services and financial services—microfinance—to its constituency. The General Assembly of the association (made up primarily of employees) decided to merge Acleda's agencies into a single unified institution. Acleda began transforming itself into a bank in the mid-1990s and finalized the legal transformation in 2000. Since then, both the loan portfolio and savings have grown at a rapid pace: savings at a cumulative growth rate of 137 percent and loans at a cumulative growth rate of over 50 percent a year. The bank has expanded its base to almost all of Cambodia's provinces. Its growth and transformation were driven largely by its success in securing funding. As an NGO, the MFI would have quickly outpaced its ability to secure donations and even subordinated debt; savings deposits offered an attractive source of leverage that also provided an important service to clients. As an NGO, the organization enjoyed a strong sense of employee ownership. When managers and directors began considering the transformation, they took time to explain the process and motives to all employees. Part of this transformation included the creation of an investment company, owned by the employees, that would hold shares in the bank, thus making the employees real owners. The MFI then handpicked the future external investors to ensure that mission was not an issue. Acleda Bank purchased the NGO's portfolio, and the NGO received both shares (a 45 percent stake in the bank) and a subordinated loan for the value of the portfolio. The institution invested heavily in the training of the management team and ultimately retained most of the key managers.

Source: Pasquale di Benedetta, Ira W. Lieberman, and Laura Ard, "Corporate Governance in Microfinance Institutions" (Washington: World Bank, 2015), pp. 24–25.

The study went on to indicate that the best programs had made large advances in outreach and financial viability over five years (1990–94). Many of the institutions had sustained very high growth rates over three years. Ten of the eleven were fully self-sufficient operationally (meaning that they covered all of their operational costs, but not necessarily their financial costs, especially when the financial costs were adjusted for subsidies such as grants from donors). Five had crossed the hurdle to full self-sufficiency (meaning that the institutions covered both their financial and operational costs, with the former adjusted for subsidies or grants from donors, inflation accounting, and their cost of capital to the extent that they received subsidized loans from donors), generating returns that reflect banking standards.

Six years later, in 2001, Marguerite Robinson, in her seminal book on microfinance, *The Microfinance Revolution*, defined the microfinance revolution in terms of commercial microfinance: "The microfinance revolution is a commercial revolution based on new financial technology and greatly accelerated by the information revolution that developed concurrently. It began in the 1970s, developed in the 1980s, and took off in the 1990s. . . . These combinations enabled institutional profitability and long-term viability, making possible large-scale formal-sector financial outreach to low income segments of the population."[7]

In 2005, with the commercialization of microfinance well advanced, Beatriz Marulanda and Maria Otero (Otero was president of Accion International, an important microfinance network with headquarters in the United States but with strong affiliated MFIs primarily in Latin America) examined the future of microfinance in Latin America. Their study projected that:

> Two approaches to the provision of financial services to the region's low-income people have consolidated in the last years. They both have commercial criteria, which we think will prevail as a model in Latin America in the next ten years. Firstly, the microfinance institutions, as yet primarily operating as NGOs, will undergo "up-scaling," or transformation into regulated entities, while at the same time commercial banks entering the microfinance sector will adopt "downscaling" to provide a range of financial services to the poor.

The authors concluded that:

> The ability of some of the leading microfinance institutions in the region to sell bonds successfully on their local capital markets is leading the way to the ever-increasing availability of private capital funding. With such

> funding, microfinance in the region will see the elimination of what in past years was the key constraint to growth of the industry, that of access to sufficient capital.[8]

The study identified seventeen commercial banks and forty-seven nonbank regulated MFIs in Latin America that represented some US$2.4 billion of a total of US$3.3 billion in microlending (73 percent of the total) among reporting MFIs, with some fifty-six NGOs providing US$868 million in loans to the region. Clearly, regulated and commercially oriented MFIs had taken the lead in the industry.[9] The report also cited eight institutions each with over US$100 million in lending.

In two papers published in 2006—one by Elisabeth Rhyne and Brian Busch, and a second by Elisabeth Rhyne and Maria Otero, the authors further confirmed the exponential growth of commercial microfinance.[10] In the Council of Microfinance Equity Funds (CMEF)–sponsored study by Rhyne and Busch, the authors compared growth of commercial microfinance as of 2006 with an earlier CMEF-sponsored study in 2004. Of 120 institutions, the 2006 study found sufficient comparable data on seventy-one commercial MFIs. The loan portfolios of these institutions grew 231 percent over the three years in question (an average of 77 percent per year), reaching almost US$5 billion from US$1.5 billion three years earlier. The number of borrowers had increased by 73 percent (24 percent a year) to some 4.1 million borrowers, up from 1.7 million borrowers in 2004. Moreover, this growth was widespread globally, with portfolio growth at 119 percent in Africa, 249 percent in Asia, 396 percent in Eastern Europe, and 169 percent in Latin America over the same period.[11] The authors concluded that the 199 MFIs in the study provided a snapshot of shareholder (commercial) microfinance throughout the world in 2006. Together they accounted for a combined portfolio of 11.5 million borrowers and US$8.7 billion in portfolio assets.[12] The number of large MFIs—portfolio over US$100 million and clients in excess of 100,000—also increased; twenty institutions had over 100,000 borrowers and twenty had assets over US$100 million.[13]

The Rhyne and Otero study was more qualitatively oriented. It looked at the drivers of success in microfinance and the quality gap, which goes beyond massive outreach by large MFI to the quality of services offered beyond credit such as, for example, savings, insurance, housing rehabilitation, and education loans. The authors noted that one of the drivers is commercial entry:

> The entry of commercially oriented providers will substantially change the microfinance field. . . . The right conditions for rapid entry by new commercial players are now present in the marketplace: demonstrated profitability,

business models that can be copied, and competencies for working with low-income populations. The history of financial innovation suggests that once such conditions are present, spread can be very rapid.[14]

In 2007, I wrote a paper with a small research team for CMEF on the initial public offering and listing of four MFIs: Bank Rakyat Indonesia (BRI), BRAC Bank in Bangladesh, Compartamos in Mexico, and Equity Bank in Kenya.[15] Each of these institutions scaled up to reach a very large number of microfinance borrowers, and three of them (the exception being Compartamos) reached a very large number of savers. These institutions were highly profitable and provided good returns on equity and on assets. They also benchmarked more than favorably with the banks in their respective countries.

Our study further confirmed the rapid progress made by commercial MF and the potential for the industry to reach a new takeoff stage in growth and outreach to the poor, while maintaining the profits, return on assets (ROA), and return on equity (ROE) necessary to attract private equity investors on a substantial scale. This new stage of development in the industry would not necessarily come from the ability of institutions to do IPOs, but rather from the signals these successful IPOs send to commercial investors, such as private equity investors or venture capitalists, and their ability to eventually exit investments they make in MFIs or microfinance equity funds. The study also focused on what made these MFIs excellent institutions.

How Did Microfinance Succeed?

Any analysis of how microfinance emerged as fully attractive to commercial investors and mainstream financial institutions, even while remaining today's leading impact investment, must look back, to the 1980s and 1990s, when the initial experiments and pilot projects providing credit to the poor were undertaken. These pilots were largely funded by subsidies (grants); "investments," largely donor soft loans, were on subsidized, noncommercial terms. Retained earnings also allowed successful MFIs to expand. This extended period of experimentation, during which several billions of dollars were devoted to microfinance projects, resulted in solid business models and an ecosystem that supported a transition of that model from substantial reliance on subsidies to a more diverse funding base, and eventually to an ongoing absorption into mainstream commercial finance.

For example, in June 1995, the Consultative Group to Assist the Poor (CGAP) was established by the World Bank and eight other donor institutions to begin scaling up funding for the sector largely directed to MFIs. Three years later, CGAP's membership consisted of twenty-six donor institutions plus the Ford Foundation, representing some US$300–500 million a year in annual funding.[16] The CGAP Secretariat was housed in the World Bank and, working with an advisory board that represented the leading institutions in the sector, began to define good practice for MFIs. CGAP also quickly became a knowledge center for the sector. The objective of this funding was twofold: one, to build the capacity of MFIs so that they could scale up their funding to their clients; and two, to provide funds for on-lending (when an organization lends money that it has borrowed from another organization or person) to these clients. CGAP became de facto the world secretariat for the sector.[17]

In addition to donor support, other forms of institutional support emerged in the 1990s to propel growth in the sector. Networks, mostly operating as NGOs, formed "holding groups" to support MFI operations globally. In time, although the networks were NGOs, many of their operating subsidiaries or affiliates became commercialized for-profit MFIs. Most of these networks were based in the United States, such as Accion International, initially focused on Latin America but in time expanded more globally; FINCA; Opportunities International; Women's World Banking; and Pro Mujer, the latter solely focused on Latin America. In Germany, operating initially as a consulting firm, the ProCredit Group operated a holding company, supported by an investor consortium of both public and private investors; it opened some twenty "greenfield" (startup) banks, many of which were located in transition economies such Serbia, Georgia, and Kosovo. A number of these networks in time formed investment funds to inject equity into their affiliates.

In addition, charitable or social funders also began to operate microfinance institutions allied with their social mission. Groups such as Care International, Save the Children, Oxfam, GRET, and faith-based groups such as Catholic Relief Funds all operated successful microfinance programs.

Microfinance gained widespread attention during the 2000s, as it began to reach beyond a small group of government agencies and philanthropies to develop new sources of capital to support growth. Microfinance in this period was characterized by very rapid growth, a focus on institutional sustainability (including positive return on equity and assets), and the development of a diverse set of institutional structures.

MFIs that transformed and attracted both equity investors and deposits soon represented the majority of both clients (savings accounts and borrowers) and the vast majority of assets in the sector. The largest MFIs had in excess of a million clients, and there were many with more than 100,000 clients. Reaching scale meant that these MFIs could begin to develop other financial products and services such as housing

TABLE 1-1. Measures of Outreach, Concentration, and Efficiency, by MFI Scale

Active borrowers	*Small (less than 10,000)*	*Medium (10,000 to 100,000)*	*Large (100,000 to 1 million)*	*Very large (more than 1 million)*
Share of total number of MFIs (%)	41	41	16	2
Share of all borrowers (%)	1.3	12.0	38.2	48.6
Share of all savers (%)	2.6	20.5	48.1	28.8
Median real interest rate + fees (as % of loan, inflation adjusted)	22.2	20.6	17.8	13.0
Median profit margin (% of revenues)	8.8	9.4	17.1	22.8

Source: Modified from Todd A. Watkins, *Introduction to Microfinance* (Singapore: World Scientific, 2018).
Data source: Microfinance Information Exchange (themix.org); data for December 2015.

Note: Interest and fees row reports "Yield on Gross Portfolio," using real rates, adjusted for inflation.

finance, education, transfers, remittances, and microinsurance. Expectations that these large MFIs would rapidly scale these other services have not been met for a variety of reasons, and that challenge remains for the sector, as discussed in the chapters that follow. Getting to scale meant that formerly regional or village NGOs began to develop widespread branch networks spreading their operations throughout their country. Table 1-1 demonstrates the degree of portfolio concentration in the sector in MFIs that have over 100,000 borrowers and those that have over 1 million borrowers. It also shows that larger institutions can be much more profitable than smaller ones.

In addition to scaling within their respective countries, some of the leading MFIs began to emerge as multinational NGOs operating in a variety of countries. For example, Grameen Bank, based primarily in Bangladesh, operates Grameen USA in various cities throughout the United States; Bangladesh-based BRAC operates a debt fund in Africa; the Association for Social Advancement (ASA), also in Bangladesh, operates in other Asian countries as well; Compartamos, a Mexican MFI, owns and operates MFIs in Peru and Guatemala; and Kenya-based Equity Bank owns and operates in several other countries in Africa, including Uganda and Rwanda.

Finally, national commercial banks in these markets and major international commercial banks began to see microfinance as an opportunity and began to downstream into microfinance. Banco Viscayo Bilbao (BBVA) used its foundation to acquire MFIs in Peru (see chapter 5, which discusses the BBVA Foundation in Peru), Panama, and the Dominican Republic; Scotia Bank operates MFIs in the

Caribbean; Commerz Bank in Germany became part of the ProCredit investment consortium; and Citi Corp set up a microfinance division in London to support its operating units in several countries engaging in microfinance and to fund other initiatives in the sector.

Developing a Supporting Ecosystem and Institutional Capacity

Demonstrating profitability was a necessary condition for engaging new sources of funding. But many other pieces needed to come together to form the ecosystem of infrastructure to support investors looking for return on capital as distinct from donors providing outright grants or with a high tolerance for and expectation of loss. Much of this ecosystem was supported or encouraged by donors. Key components were:

- standardized financial performance metrics;
- longitudinal databases and peer-group analysis; the MIX affiliated with CGAP became the standardized worldwide database for the sector based on self-reported information from MFIs throughout the sector globally.
- specialized institutional rating agencies with trained analysts such as MicroRate and M-Cril, the latter focused on Asia;
- training of human resources, particularly the development of managerial talent; including a training institute. The Boulder Institute, organized and operated by a social entrepreneur, initially attracted some 250–300 students each summer from around the world to Boulder, Colorado. In more recent years the Boulder Institute has operated from the International Labour Organization's training center in Turin, Italy.
- the emergence of supervisory and regulatory frameworks that would allow MFIs to take on shareholder structures and, in some cases, access public deposits;
- industry associations and collaboration networks at both the national and international levels;
- persistent outreach to and education of new investors;

- the creation and maturation of specialized commercial investment managers and microfinance investment vehicles (MIVs) that could underwrite and monitor diversified pools of microfinance assets (see box 1-2 for a discussion of the first investment fund dedicated to funding MFIs), enabling channeling large volumes of investments into MFIs;

- the creation of a facility, the MFX, to offer hedging services for microfinance investment funds and others providing loans to MFIs in local currencies.

BOX 1-2. ProFund: The First Microfinance Investment Fund

ProFund, launched in 1995, was the first private, profit-seeking venture capital fund that exclusively targeted microfinance. ProFund proved that private investment in commercial MFIs could be profitable over the long haul. Before then the sector had no commercial investment track record. Most of the sector's funding came from nonprofit, government, or similar development-related sources with social missions. Looking to fill that gap, ProFund sought to demonstrate to others that providing financial services to the poor could not only sustainably pay for itself but also return a profit. The main original sponsors were the nonprofit Accion International, two private foundations (Calmeadow of Canada and FUNDES of Switzerland), and the French social business SIDI—in other words, subsidized, patient, impact investment capital. Other socially oriented investors soon joined. Through investment and advising, ProFund fostered numerous high-profile successes, demonstrating profit and commercial potential via several different mechanisms: transformations from NGOs to banks; public-private partnerships (e.g., MiBanco in Peru); commercial downscaling of mainstream banks into microfinance (e.g., Sogesol in Haiti); and even public stock offerings (e.g., Compartamos in Mexico). When ProFund liquidated after ten years, as planned, it generated a 6 percent average annual return for its investors, which was especially notable given the political instability and currency volatility in Latin America during the period. More important, the demonstration effect clearly worked. Within a year after ProFund closed in 2005, at least twenty other private microfinance funds were actively investing in Latin American microfinance.

Source: ProFund International, S.A., 2005 report on the history of the fund (Costa Rica: ProFund International, 2005).

This complex support ecosystem for microfinance, painstakingly put in place in many cases by social entrepreneurs and supported by substantial donor funding, succeeded in promoting industry transparency and establishing and spreading best practices.

Experimentation and demonstration were central.

Cracking Mainstream International Capital Markets

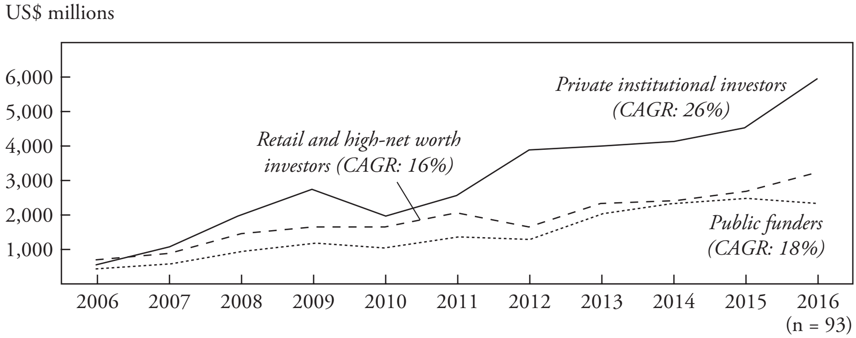
The result of such pioneering proof-of-concept efforts in the 1990s was an explosion in the 2000s of fund managers and microfinance investment vehicles (MIVs) seeking to intermediate private investment in microfinance. The 2017 Symbiotics report surveyed ninety-three MIVs with a combined market size estimated at US$12.6 billion out of a total estimated asset base of US$13.5 billion. The market size had more than quintupled since 2006, representing a compounded growth rate of 20 percent for total assets and 22 percent for microfinance portfolios. Debt represented the majority of the investments (82 percent), with equity at 16 percent. By the end of 2016, more than half (58 percent) of total MIV investment had gone to the largest MFIs, those with more than US$100 million in assets.[18]

In terms of sources of funding, while early investments were largely from public, development-related sources, commercial interests now dominate. As of December 2016, private institutional investors financed 52 percent of MIVs' capital while public funders contributed 20 percent. Financing from institutional investors has grown the fastest since 2006, at a rate of 26 percent annually (see figure 1-1).

As many managers established a track record, and more data accumulated on loss rates, exits, and secondary market liquidity, purely mainstream investors increasingly turned their attention to the sector. Commercial MFIs can now access mainstream international capital markets through all the usual international financial channels, such as the interbank market, corporate debt issues, and both private and public equity financing. Global banks now make substantial microfinance investments directly themselves, with acquisitions and mergers accelerating, and global investment firms provide services to help MFIs issue debt and sell shares. More than a dozen MFIs have now had IPOs, some (for example, Compartamos Banco, SKS, Equity Bank, Equitas Holding, Ujjivan Financial) establishing shareholder valuations in the billions of dollars.[19]

In short, the top-tier MFIs have full access to international financial tools. As in any industry, only the most successful firms with long-term growth potential can

FIGURE 1-1. Trend in Microfinance Investment Vehicle Funding Sources, 2006–16



Source: Symbiotics, "2017 Symbiotics MIV Survey: Market Data and Peer Group Analysis, 11th Edition" (Geneva, 2017) (https://symbioticsgroup.com/wp-content/uploads/2017/09/Symbiotics-2017-MIV-Survey.pdf).
Note: CAGR = compound annual growth rate.

climb into that rarified tier, attractive to global capital markets. Inevitably, many firms never achieve track records that are attractive to purely commercial investors. But the top MFI performers have done so.

Transformation and Commercialization

Initially, when most MFIs were NGOs, the emphasis of MFIs and the sector at large was on poverty alleviation and social impact. Over the decades, as many MFIs transformed into commercialized institutions with external investors, there was much more emphasis on operational performance and financial sustainability. Commercialization fueled a schism in the sector, with Muhammad Yunus, for example, criticizing the high interest rates charged to poor clients and the focus on profitability for investors. This split was openly debated when Compartamos launched its IPO. Its high interest rates and return on assets and equity were publicly disclosed, and the founders and early investors, such as the nonprofit Accion International and the World Bank's International Finance Corporation, reaped substantial rewards from modest financial investments in the institution.

Perhaps the strongest argument of proponents who believe microfinance is working is that hundreds of millions of clients are voting with their feet, suggesting they value MFI services. Whether microfinance helps large fractions of them escape poverty remains an open question. In recent years, the work of leading academic researchers has called into question the role of microfinance in alleviating poverty. At best, their research seemed to suggest that, for the majority of clients, microcredit supported income smoothing and had the ability to prevent the working poor from falling into deeper poverty in the event of a costly crisis in the family such as a death or illness, or even a joyous event such as a wedding. Only a minor fraction of clients saw substantial positive impact on various measures of their well-being.[20] This research largely focused narrowly on micro*credit,* not microfinance more broadly or financial inclusion. The literature is thinner on microsavings or microinsurance. Yet many commercialized MFIs now offer microsavings services, often together with microinsurance and other services, most often built on the infrastructure made possible by scaling microcredit. Microsavings is recognized by practitioners as being as important as microcredit for MFI clients—perhaps even more important—and so far the limited academic evidence generally supports that conviction. Nevertheless, the lack of clear evidence of impact on poverty reduction has contributed to dampening enthusiasm from a number of investors, donors, and development finance institutions, who now conceive financial inclusion investment opportunities more broadly. Robert Cull and Jonathan Morduch conclude that, with respect to impact: "These results, taken as a whole, suggest that the average impacts of microfinance are modest. Still, target populations are liquidity-constrained, and getting the right product to the right population can yield substantial impacts."[21]

Similarly, detrimental to the sector's attractiveness to some investors, individual country crises have suggested that MFIs risked overlending, causing some clients to fall deeply into debt and inextricably into arrears. In addition, prevailing high interest rates rationalized by the need to be sustainable have led many external analysts to question the commitment of commercial MFIs to their social missions. Microfinance has experienced individual institutional crises and some country crises, notably in countries such as Bosnia, Pakistan, India (state of Andhra Pradesh), Morocco, and Nicaragua. None of these crises have been systemic or caused contagion in the sector internationally, and overall losses in the sector have remained below 1 percent, which is extraordinary given that many pundits in the financial sector felt that the sector would never succeed because the poor would not repay their loans.[22] Most cases in the sector have been the result of poor institutional performance. But in a few cases crises in individual countries have been caused by political intervention in the sector, such as in the state of Andhra Pradesh in India, leading the State Bank of India (the central bank) and the government to adopt new policies governing the sector. In Nicaragua, the president's instruction to farmers in the north of the country not to pay their loans led to a payments crisis and the failure of a microfinance bank, Banex, which had attracted substantial international investment capital—both equity and loans (see box 1-3).[23]

While knowledgeable insiders recognize that microcredit on its own cannot eradicate poverty, nor serve the very poorest who need comprehensive forms of poverty intervention, most would argue that together with other areas of support—education, health care, sustainable agriculture, infrastructure—microfinance and MFIs can

BOX 1-3. Banex and the No-Payment Movement in Nicaragua

Background: Banex began as Finde, a very successful, rapidly growing NGO in Nicaragua. In 2002 it converted to a nonbank financial institution, Findesa, and in October 2008 it changed its name to Banex (Banco del Exito, or "Success Bank") when it received its full banking license. Starting with a loan portfolio of US$7 million in 2002, Findesa soon had thirty branches throughout the country and also began to attract deposits. By 2008 the bank had 68,000 clients and a loan portfolio of US$125 million. Banex began to move upstream to offer small-business loans, cattle-raising loans, and agricultural loans, all of which had distinctly different risk profiles than the plain vanilla working capital loans that were the staple of MFIs. Banex's success allowed it to attract both domestic and international equity investors, including a large bloc owned and controlled by the bank's chairman and managing director. International equity investors were primarily microfinance investment vehicles (MIVs). Banex also attracted a number of MIVs as lenders, as well as development finance institutions (DFIs)—the Inter-American Investment Corporation (IIC) at the Inter-American Development Bank (IDB)—and a local and regional development bank, which provided lines of credit to the bank. As of year-end 2008, the bank had mobilized some US$100 million in loans and over US$30 million in deposits and was profitable. Local investors owned 57.8 percent of shares and foreign investors 42.2 percent. Of the eight board members, four represented local investors, three were international investors, and one board member was independent.

The No-Payment Movement: In response to aggressive legal action by one MFI (not Banex) against its clients for nonpayment of loans, a local protest

(*continued*)

BOX 1-3. Banex and the No-Payment Movement in Nicaragua (continued)

movement began in the summer of 2009 accusing all the MFIs of usurious interest rates. This protest soon evolved into a no-payment movement, supported by the populist president of Nicaragua, Daniel Ortega, a former Sandinista.

Banex in Crisis: The initial reaction by Banex was to assure its investors and creditors that the no-payment movement would slow and that Banex had ample liquidity and capital to withstand the crisis. By May 2009, Banex's board had grown increasingly concerned. Performance had begun to deteriorate, and the board asked management to consider a US$3 million recapitalization plan. Management resisted, expressing confidence that beef prices had bottomed out and that cattle loans, perhaps the riskiest segment of the portfolio, would be safe. In September 2009 the shareholders met in Managua. Performance had continued to deteriorate. Lack of agreement between international investors on the size of the investment needed, resistance by local investors who lacked the resources to participate in the rights movement, and a legal agreement with a lender that required majority local ownership, all made the recapitalization process difficult and less timely than it needed to be. In addition, creditors, who had to be part of the solution, had not yet been approached. A large number of loans were maturing in the first quarter of 2010, and it was clear that Banex would face difficulty replacing those loans with new loans or having the creditors roll over their loans. Not only did Banex need more equity, but perhaps more important, there needed to be a debt restructuring as well, with creditors converting a percentage of their loans to subordinated loans that would serve as tier-two capital and equity. In September 2009 MicroRate (an MFI rating agency) was retained to do a special portfolio audit. Its audit showed clearly that provisions for bad loans were significantly understated. At the time of the MicroRate audit, the company was reporting PAR (portfolio at risk)>30 days at 19 percent, while MicroRate projected PAR>30 days at 30 percent. A financial advisory team was hired just before the MicroRate report was finalized. It soon became clear to the advisers that the capitalization plan was in trouble. There was no agreement between international and local shareholders. Local shareholders severely resisted the

(*continued*)

BOX 1-3. Banex and the No-Payment Movement in Nicaragua (continued)

dilution that a large equity investment would mean. They also objected to the valuation of the bank by international investors, which would further dilute their holdings. In addition, the bank lacked any form of forward projections as a basis for negotiating with creditors. A meeting of the investors, the creditors, and the advisers in Geneva seemed to offer some hope for a debt restructuring, but this was conditional on the equity investors recapitalizing the bank in the interim to prevent intervention by the banking supervisor, who was pushing the company hard to recapitalize to maintain capital adequacy. Under Nicaraguan banking law, if capital adequacy fell below 10 percent, the supervisor was obliged to intervene in the bank. With a very diverse group of some thirty creditors and investors spread across three continents, getting agreement was not going to be easy under any circumstances. Following a meeting between the investors, creditors, management, and the banking supervisor in Managua on December 1, 2009, negotiations between the creditors and the investors went on for an extended period as the bank deteriorated. A restructuring plan was agreed to in principle, with the creditors agreeing to restructure 13.6 percent of their senior debts to subdebt and equity and the equity investors agreeing to inject some US$8 million in new funds into equity, a package of some US$20 million. Unfortunately, the debt restructuring was too little and too late. The restructuring called for an eighteen-month agreement, rather than an intermediate-term agreement of five to six years as recommended by the advisory team. The major creditors, who controlled the creditors committee, were hoping that the market would turn around and that they would be able to get paid since their loans were among the first due in the original maturity schedule. Creditors also indicated that the nature of their debt funds, special-purpose vehicles (SPVs), made it very difficult for them to get agreement on a restructuring. As part of the recapitalization agreement the managing director was replaced, and the board composition was changed. Nevertheless, losses continued in 2010, and the state eventually intervened to protect the depositors. Its portfolio was allocated to Nicaraguan banks, and both investor and creditor losses were substantial.

Source: Pasquale di Benedetta, Ira W. Lieberman, and Laura Ard, “Corporate Governance in Microfinance Institutions” (Washington: World Bank, 2015), p. 28.

contribute to poverty alleviation.[24] Thus, as discussed in the chapters that follow, MFIs should, to the extent they are capable, continue to offer an increasingly diverse array of financial services to their clients and continue innovating in order to deepen their impact.

In part as a result of these concerns about social impact, the microfinance industry itself has taken social impact and attention to clients ever more seriously. In the past decade, focus groups, financial diaries, and the Smart Campaign's Client Voice Project,[25] together with standardized indicators and transparent reporting like the Social Performance Task Force and MIX, have helped measure, track, and report the social performance of MFIs. MFIs' boards of directors and senior management are creating specialized impact departments and bringing in external advisers to assist in developing social impact goals, analyzing performance, and strategizing to enhance future impact. It is increasingly clear that MFIs recognize the need to continuously and convincingly demonstrate that they are meeting social missions and benefiting clients.

Technology: A New Opportunity to Expand or an Existential Challenge

Technology is a powerful driver of access to finance, especially to rural populations. Over the past ten years or so, in several developing countries mobile phone providers and networks are working with large MFIs to bring mobile banking to the poor. Kenya is the outstanding example of how this can work to facilitate payments, lending, savings, and money transfer. Safaricom, a subsidiary of Vodafone, has some 20 million clients using its services to facilitate financial services without a bank in the middle. Both K-Rep Bank (now Sidian Bank) and Equity Bank, the largest microfinance or small-business bank in the country, the latter with branches throughout the country, have joint ventures with Safaricom to further extend their penetration. Supporting this effort are networks of agents developed by each of the banks.

Financial technology companies (fintechs) are also rapidly emerging both in the advanced economies and in developing economies to challenge traditional financial institutions. Fintechs are developing proprietary models or platforms that will allow these institutions to rapidly scale up their lending to microfirms and small and medium-sized enterprises (SMEs).[26]

The existential question discussed herein by Renée Chao-Beroff in "The Future of Microfinance in Africa" is whether the "low-touch, high-tech" approach to financial services through mobile lending or by fintechs will erode the value added of the "high-touch, low-tech" approach of microfinance. If commercialized MFIs of scale are able to adapt and venture successfully with mobile networks or fintechs, the sector will likely grow over the next ten years. The technological opportunities and challenges are discussed in greater depth in various chapters in this book.

Governance

Governance is one of the least-discussed and written-about topics in microfinance,[27] but it has become increasingly important as MFIs have scaled up and diversified and are now being forced to adapt to new technologies. These present an important opportunity for the sector to grow or, alternatively, present an existential threat. In today's expanded and more commercialized environment, several factors give rise to governance concerns:

- **Growth and scale of MFIs.** In several poorer countries, such as Mexico, Bolivia, Peru, Cambodia, Bangladesh, and Kenya, MFIs have become systemically important in serving the poor and underserved.

- **Emergence of legal and regulatory gaps.** Many MFIs have transformed, becoming microfinance banks that mobilize deposits. Banking supervisors need to understand how best to regulate these institutions to ensure sound governance practices, to safeguard the safety and soundness of these institutions, and to protect depositors.

- **Succession.** Many of the original entrepreneurs who founded and managed MFIs for an extended period of time have begun to retire. Also, during MFIs' transformation to commercial banks, many change management because investors view the managers of the transformed NGOs as inappropriate managers of a commercial bank. For whatever reason—retirement, change in status, death, or illness—succession is one of the most critical governance issues and it is the responsibility of boards of directors to plan for it and to oversee it when required.

- **National crises.** In Nicaragua, India, Morocco, Nigeria, and Bosnia existing overcrowding and overlending are beginning to elevate risks for the industry.

- **Increasing industry risks.**
  - *Foreign exchange risk.* Some commercial MFIs are borrowing from international debt funds in dollars or euros at relatively high costs and are bearing the attendant foreign exchange risk in the event of a devaluation of their local (national) currency.
  - *Product-diversification risk.* MFIs are adding new product lines and are moving away from "plain vanilla" working-capital loans with typical maturities of twelve months or less. They are adding small-business loans, housing-rehabilitation loans, and agricultural loans, for example, that may carry different maturities, different payment terms, and different associated risks, hence different risks. Services such as insurance, money transfers, remittances, and even mobile banking are also becoming part of the mix. MFI boards need to be able to evaluate the strategic fit, investment requirements, potential returns, and risks—that is, the cost-benefit of product diversification of such products and services.
  - *Political and operational risk.* Political risks, such as state intervention and nonpayment movements, as seen in India and Nicaragua, have damaged the sector's reputation. In Nicaragua, one of the important microfinance banks became distressed and was forced to accept intervention by the banking supervisor. In India, several large MFIs were left barely functioning and financially at risk, putting millions of clients temporarily without access to services.
  - *Client risks.* Overlending, high interest rates, and crises have increased the demand for client protection and transparency in the sector. The Smart Campaign is one of the best examples of an effort to improve client protection while raising awareness of social impact. The Smart Campaign was launched by several leading institutions, such as Accion, to focus on client protection and improved transparency and disclosure to clients on topics such as, for example, effective interest rates charged by the MFI. The boards of MFIs are feeling pressure to oversee the performance of their organizations more closely with respect to client protection, pricing transparency, and social impact, as well as operating and financial performance.
- **Diversification of MFI structure and type.** Several groups and networks have expanded substantially to the point where they are systemically important to the sector. Normally governance should be critically examined at the level of

the individual institution, but in several countries, groups have expanded and become transnational institutions. This is the case for NGO networks such as the Foundation for International Community Assistance (FINCA, today a holding company) and Accion International (USA); bank holding groups, such as ProCredit Holding (Germany); and previous national banks or NGOs, such as the Bangladesh Rural Advancement Committee (BRAC) and Equity Bank (Kenya); social-sector-based institutions, such as Care International, Save the Children, and Oxford Committee for Famine Relief (Oxfam), have developed substantial microfinance activities. How the latter separate social services from financial services and how they manage these distinct lines of business is important. How these diverse groups provide governance support to their large network of affiliates or subsidiaries and how they, in turn, govern themselves is important not only for their clients, but also for the sector as a whole.

- **Entry of new institutional investors.** Some seventy debt funds and thirty equity funds, primarily with a mix of public development finance institutions (DFIs) and private investors, have emerged and are paying more attention to the quality of governance in MFIs in which they invest or to which they lend. These institutions frequently take a seat on the boards of directors of the institutions in which they invest. This means that the quality of their nominees and the ability of these nominees to represent the MFI as a whole is critical to the governance of these institutions.

- **The double bottom line.** Microfinance is viewed as having an important social purpose, providing the resources for the working poor to pursue self-employment opportunities or to build microenterprises that provide basic support to their families. Regulated microfinance banks also give clients a safe place to save. As such, the performance of MFIs should not be judged only by their finances and operations, but also by their social impact on poverty alleviation and creation of employment opportunities. MFIs thus have a double bottom line, and boards of directors need to oversee MFIs' finances and their performance with respect to its social impact.

Chapter 9 by Lory Camba Opem, "Governance in the Digital Age," discusses these issues in more depth.

Conclusions

Microfinance has moved almost irretrievably toward a commercial model, as a segment of the financial inclusion sector while also supporting niches of the impact investment sector such as loans and investments in solar energy, irrigation, the agricultural value chain, education, and affordable housing. As such, microfinance represents an important niche sector in the emerging markets financial industry and not as a charitable endeavor through MFIs operating as NGOs. There are still thousands of MFIs operating as NGOs, from very small self-help groups in India to NGOs in Tajikistan, Bosnia, and Albania to the very large MFIs in Bangladesh such as BRAC and Grameen Bank, though Grameen now holds a banking license. I believe that the industry will largely continue to try to self-regulate against commercial abuse by promoting consumer protection and disclosure to clients of effective interest rates. Also, countries such as Bolivia and Ecuador are beginning to cap interest rates, which may either pose a threat to the sector or moderate excessive rates if their capping policy is done appropriately. MFIs now reach some 200 million borrowers, up from 10 million in 1995 and far exceeding the goal of 100 million set at that time by industry leaders and donors.[28] The only way to finance the capital needs of this growth is to commercialize. Scaling up through access to savings and capital markets, introducing new technologies, and developing new products all rely on MFIs commercializing, generating a profit, and producing an acceptable return on investment to attract private investors.

This statement by MicroRate in 2011 after the end of the international financial crisis, or Great Recession, on the state of the microfinance sector perhaps best sums up where the sector is at present:

> The microfinance market today looks much different from 2007. Despite the worldwide financial crisis, the sector has doubled in size, transformed from mostly an NGO driven market to one increasingly dominated by regulated institutions, experienced a strong expansion of savings services, and held its first public listings and mergers. Microfinance is displaying the signs of a maturing industry. It has also weathered its first global downturn, lived through several major market crises, and is currently living through a crisis of perceptions and confidence on whether microfinance actually helps alleviate poverty in the first place. None of these issues existed in 2007.[29]

Notes

1. See Stuart Rutherford with Arora Sukhwinder, *The Poor and Their Money*, 2nd ed. (Warwickshire, U.K.: Bourton on Dunsmore, 2009) for a discussion on the importance of savings by the poor. See also Marguerite S. Robinson, *The Microfinance Revolution: Sustainable Finance for the Poor*, vol. 1 (Washington and New York: World Bank and Open Society Institute, 2001).

2. For a balanced discussion on subsidies, see Robert Cull and Jonathan Morduch, "Microfinance and Economic Development," Policy Research Working Paper 8252 (Washington: World Bank, November 2017), pp. 30–32.

3. The year 2005 was called the Year of Microfinance by the United Nations, and Professor Yunus was awarded the Nobel Peace Prize in 2006 for his work. See Muhammad Yunus, *Creating a World without Poverty: Social Business and the Future of Capitalism* (New York: Public Affairs, 2008).

4. Robinson, *The Microfinance Revolution*.

5. Robinson, *The Microfinance Revolution: Lessons from Indonesia*, vol. 2 (Washington: World Bank and Open Society Institute, 2002). For an analysis of BRI's performance before its initial public offering, see Ira W. Lieberman and others, "Microfinance and Capital Markets: The Initial Listing/Public Offering of Four Leading Institutions" (Boston and San Jose, Costa Rica: Council of Microfinance Equity Funds [CMEF] and Calmeadow, December 2007).

6. Robert Peck Christen, Elisabeth Rhyne, and Robert C. Vogel, "Maximizing the Outreach of Microfinance: The Emerging Lessons of Successful Programs" (Washington: IMCC, September 1994).

7. Robinson, *The Microfinance Revolution*, vol. 1, pp. 28–29.

8. Beatriz Marulanda and María Otero, "The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics" (Washington: Accion International, April 2005).

9. Ibid., p. 6, table 1.

10. Elisabeth Rhyne and Brian Busch, "The Growth of Commercial Microfinance, 2004–2006" (Council of Microfinance Equity Funds, September, 2006) (https://centerforfinancialinclusionblog.files.wordpress.com/2011/10/the-growth-of-commercial-microfinance-2004-2006.pdf); Elisabeth Rhyne and Maria Otero, "Microfinance through the Next Decade: Visioning the Who, What, Where, When and How" (Washington: Accion International, November 2006).

11. Rhyne and Busch, "The Growth of Commercial Microfinance," p. 6.

12. Ibid., p. 9.

13. Ibid., pp. 11–12.

14. Rhyne and Otero, "Microfinance through the Next Decade," p. 17.

15. Lieberman and others, "Microfinance and Capital Markets."

16. Donors or funders were the World Bank, bilateral funding agencies such as USAID, KfW (Germany), FMO (Holland), CIDA (Canada), regional development banks such as the Inter-American Development Bank and the Asian Development Bank, and various UN agencies.

17. Ira Lieberman, the author of this chapter, was the founding CEO of the CGAP Secretariat at the World Bank. He managed CGAP for five years, from 1995 through 1999.

Ismail Serageldin, vice president for sustainable development at the World Bank, was responsible for oversight over and managing the consultative group of donor institutions.

18. Symbiotics, "2017 Symbiotics MIV Survey: Market Data and Peer Group Analysis, 11th Edition" (Geneva, 2017) (https://symbioticsgroup.com/wp-content/uploads/2017/09/Symbiotics-2017-MIV-Survey.pdf).

19. See Lieberman and others, "Microfinance and Capital Markets."

20. Cull and Morduch, "Microfinance and Economic Development," pp. 20–30, discuss the economic literature with respect to the economic impact of microfinance.

21. Ibid., p. 30.

22. For a discussion of the causes of crises in microfinance, see Daniel Rozas, "Weathering the Storm: Hazards, Beacons and Life Rafts," Publication 11 (Washington: Center for Financial Inclusion at Accion International, July 2011).

23. The author of this chapter headed an advisory team that tried to resolve the Banex crisis, and one of the editors of this book, Paul DiLeo, represented the equity investors in trying to resolve the crisis. See also Shawn Cole and Baily Blair Kempner, "BANEX and the 'no Pago' Movement," *Harvard Business Review*, April 21, 2011.

24. Robinson, *Microfinance for the Poor*, argues that poverty intervention requires an array of support mechanisms and that loans are inappropriate for those in abject poverty. Muhammad Yunus, on the other hand, has argued that microfinance should serve the poorest of the poor. Indeed, as chairman of CGAP's advisory board, he pushed to have CGAP named the Consultative Group to Serve the Poorest of the Poor. Other advisory board members generally advised against this name change, as did management.

25. The global Smart Campaign is committed to embedding client protection practices into the institutional culture and operations of the financial inclusion industry. Since 2009, the Campaign has certified more than 80 global institutions in Client Protection and worked with industry leaders to amplify the importance placed on "doing no harm." For information on their Client Voice Project, see http://smartcampaign.org/tools-a-resources/1075.

26. On Deck Capital, a publicly traded company in the United States, has joint venture agreements with JP Morgan Chase and BBVA of Spain to analyze and underwrite micro- and small-business loans in the United States, with the banks utilizing their balance sheet to finance these loans and their branch structures and market penetration to maintain the client relationship.

27. The Council of Microfinance Equity Funds (CMEF) published governance guidelines for its member funds in 2005 and updated these guidelines in 2012 in light of changes in the industry such as increased emphasis on transparency and social protection for microfinance clients. See CMEF, "The Practice of Corporate Governance in Shareholder Owned Microfinance Institutions," Consensus Statement of the Council of Microfinance Equity Funds, May 2005, revised in 2012. The author was a contributor to these guidelines. This summary on the importance of governance is largely derived from the introduction to the paper by Pasquale di Benedetta, Ira W. Lieberman, and Laura Ard, "Corporate Governance in Microfinance Institutions" (Washington: World Bank, 2015). Also, the International Finance Corporation has published a paper, "Corporate Governance for Financial Inclusion, Guidance for Board Members of Microfinance Institutions, September 2017," to which this author was a contributor.

28. Cull and Morduch, "Microfinance and Economic Development," p. 6. In 2013, MFIs attending the Microfinance Summit, an event organized by Yunus and others starting in 1997, self-reported reaching some 211 million clients. There have been seventeen such summit meetings since 1997.

29. "Role Reversal II Learning to Wield the Double Edged Sword," MicroRate, October 2011, p. 4.