Microfinance for Entrepreneurial Development

Sustainability and Inclusion in Emerging Markets

Edited by
Douglas Cumming,
Yizhe Dong, Wenxuan Hou, and
Binayak Sen

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CHAPTER 1

The End of Imagination? Understanding New Developments in Microfinance

Douglas Cumming, Yizhe Dong, Wenxuan Hou and Binayak Sen

1.1 The State of Promise

Microfinance drew attention to itself beginning the day it was born. From day one, its fate was hotly debated by ever-colliding camps of ardent supporters and staunch critics. These two camps tend to offer two extreme (polarized) views on microfinance. The supporters hold that microfinance

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provides a durable answer to the endemic problem of rural poverty eradication and will eventually "send poverty to the museum." Microcredit works like a miracle: It not only addresses credit market failures for the poor and aids small savings/investments, but also builds a platform on which other mobility strategies and pathways, such as human development and migration, can be effectively implemented. While it only reduces extreme poverty, it can lower risks of falling into greater poverty. Supporters continue to hold microfinance as one of the key time-tested tools for global poverty eradication. However, skeptics argue a diametrically opposite position. They hold the negative view that lending by microfinance institutions (MFI) is wasteful, prone to huge targeting errors and leakages, and, in practice, not an effective tool for rural poverty reduction. To this effect, they raise a range of counter-arguments: "may benefit the poor in the short-term, but long-term mobility prospects are uncertain"; the extreme poor are "by-passed" by MFIs; "income shocks are not addressed and, consequently, assets are depleted"; MFIs charge very "high interest rates"; "excessive repayment pressures" on the borrowers almost like the traditional moneylenders; "microlenders are blood-suckers," etc. How can a sector evoke such opposing views and conclusions? Recall the terms "Microfinance Revolution" (Robinson 2001; Kono and Takahashi 2010) and "Microfinance Promise" (Morduch 1999)—how are we to understand these signals in view of the above ongoing polarized debates? Writing about the hegemony of microfinance in the mid-2000s, Jonathan Morduch observed:

> Revolutionaries are not noted for the modesty of their aims, or their claims. Nevertheless, it is certainly true that microfinance—the provision of very small loans and deposit services for the poor, under-served, rural, mostly women borrowers and savers—has captured the imagination of policy-makers, development practitioners, and researchers in ways that few other programs have. Aid grants and financing have flowed to support microfinance programs, NGOs have incorporated microfinance in their health or education or gender equity programs, Bangladesh's Grameen Bank is now almost as famous as the World Bank, and the UN General Assembly has declared 2005 as the International Year of Microcredit.

There has been a massive expansion of MFI reach in Bangladesh in the recent period: MFI membership has increased from about 8 million in 1996 to 34.6 million in 2010. MFI mobilized Taka 7 billion in savings in 1996, which grew to over 160 billion by 2010. The same applies to the "self-help group" movement in India and microlending practices in rural China (Hsu 2014). The idea of microcredit in various forms has found expressions in diverse country contexts (in both developing and developed counties). Based on a recently estimation from the responsibility, there are about 10,000 MFIs exist worldwide and the global microfinance market is expected to grow by 10–15% over next a few years (responsAbility 2015).

Is the original cause for microfinance optimism still valid? We tend to argue that the original spirit of microfinance is still valid, though like Derrida, we can also talk about the "spectrality" of microfinance; the question of which form, of the possible "spirits," of microfinance is alive and well is important to distinguish in this heated debate. We are not simply seeking an artificial middle ground—as Hegel would remind us, "Between the two extremes lies not the solution, but the problem." Much of the development within the microfinance sector in terms of its reach, subsequent modifications of its internal rules and institutional arrangements, and actual program effects cannot be understood without reference to the development dynamics on the ground, i.e., on-going structural transformation in rural societies—ranging from Bangladesh and India to China and Africa. In this uncertain dynamic of rural structural transformation, even a microfinance revolution needs to rejuvenate itself with each successive stage of development. After all, no true revolution is possible without transforming the very idea of revolution.

1.2 Three Basic Ideas of Microfinance

The idea of microfinance, or small finance, rests on three foundational claims that defy conventional wisdom.[1] First, it is asserted that the poor are as bankable as the rich. Professor Muhammad Yunus, the founder of the Grameen Bank and a Noble Laureate, put it in even starker way in the language of rights: "access to credit is a basic human right." The idea of bankability of the poor goes against the practice of conventional banking. After all, the poor lack collateralizable assets, and thus they are likely to be cut off from the formal credit market.

Second, it is claimed that the poor do not lack entrepreneurship. Whether the microfinance project is intended to promote self-employment by deploying family labor of the poor or to generate additional wage employment for workers outside the immediate family, supply of entrepreneurial skills is never in question. Again, this militates against the notion of conventional class divide between the owners of capital and owners of labor, and the norm that the poor can improve their lot only through participation in the labor market, and not through trespassing into the realm of capital. Microfinance tried to make a break here—overcome the traditional antinomies between labor and capital—by transforming a large section of the poor into a small but upwardly mobile class of entrepreneurs, who would often compete in the same product market as the rich. Time and again, Yunus reemphasized the often-neglected role of sustainable self-employment in the process of economic development of the poor countries and the need for rethinking the function of development entrepreneurship in a broad-based way.

Third, a corollary to these two claims is the implicit recognition that more equitable society based on a well-functioning market economy demands not only a more equitable distribution of income but also a more equitable distribution of capital. The rhetoric of microfinance is strongly framed in the politics of poverty eradication ("send poverty to the museum"—a clarion call eventually reflected in the transition from MDG to SDG) and a just equitable society within the framework of market economy (Yunus calls it a "socially conscious market economy"). The ambiguities and ambivalences implied by the usage of the above terms cannot escape attention here. However, the moot point is to recognize that it claimed to "speak truth to the power" in the name of global poverty eradication and global equity. Although born in Bangladesh, it did not remain restricted to local nationalism; from the start it had a global reach, almost struggling to market itself as a way of addressing global economic injustice without drastic alterations of prevailing power-sharing arrangements. In that, the movement of microcredit and microfinance has acquired an implicit ideological positioning as a "left-of-the-center" political idea.

Empowered by the above ideas, microfinance schemes have received policy attention in a large range of developing countries as a tool of poverty reduction in diverse economic (agrarian/rural as well as non-agricultural/urban) contexts and as a supplementary mode of targeted institutional interventions alongside the mainstream economic policies. Over the past four decades the "microfinance sector" has undergone considerable changes; it has become more diversified sector-wise, more heterogeneous in terms of clientele, and more complex in terms of plurality of institutional arrangements. The practice of microfinance has proceeded faster than the initial premises guiding its operation, thus creating new questions for both research and practice. Some of the papers included in this volume reflect the growing complexity of the microfinance sector.

1.3 Evolution or Mission Drift?

Some of the changing lending practices in the microfinance sector—gradual shifts from group to individual lending, divergences between intended and actual loan use, excessive repayment pressures, and heterogeneity of clients—often including persons outside traditional poverty groups—seem to question the very premise of microfinance and were bound to trigger debate. Increasing complexity of the MFI sector was interpreted as undermining of the original mission statement, as growing amnesia of the promise, and as a shift, drift, or derailment from the poverty reduction goal, tantamount to a betrayal of the "cause of revolution."[2] As deviations from the original norm became more or more apparent in diverse social contexts and different country settings, the voices of dissent became louder (Merland and Strøm 2010). These dissenting concerns merit close analytical scrutiny. First, it could be that some of the changes are reflective of new realities on the ground, often arising from the very dialectic of "contradictions" that were already present in the design of traditional microfinance. Rural (agricultural) and urban (non-agricultural) conditions may dictate different lending practices, as would targeting male vs. female borrowers. Second, some of the changes in the practices in the microfinance sector may be institutional responses to meet the inter-generational aspiration/mobility responses of the poor clientele of MFIs. These changes, in part, explain why Grameen educational stipends and microinsurance emerged as additional MFI products in Bangladesh. Third, new challenges thrown in by the dynamics of structural transformation also led to different takes on the microfinance sector. Initially, MFIs were focused only on self-enterprises. However, over time, as the incidence of extreme poverty (defined by a suitable poverty line) started falling, compulsions to address the concerns of the segment of vulnerable non-poor arose as well. This is part of the reason attention has shifted to microenterprise loans. Third, part of the "mission drift" controversies lie in the adequate episteme: practice of microfinance has proceeded faster than the conventional theory of microfinance (predicted/itself) (Mahmud and Osmani 2016). New practices challenged economic theory and raised new questions, some of which we shall review later as part of this essay. In a sense, this was inevitable. After all, the poor are not a homogenous community; they include diverse social and economic groups with vastly different occupational leanings, assets, vulnerabilities and empowerment conditions that are "huddled together" into one overarching concept of poverty (Sen 1981).

The upshot of the above is that development of the microfinance sector is better tracked through the prism of an evolutionary approach that considers the changing ground realities as well as the compulsions of meeting new financial product demands of increasingly diversified and heterogeneous MFI clientele. Whether, with the passage of time, it had drifted from the original mission statement of helping the poor and the marginalized, and instead become a mere financial technology to be used alongside other tools of macrofinance, is also a question deserving of more rigorous scrutiny.

1.4 Economic and Social Effects: Converging Evidence

This section summarizes the highlights of the growing literature on microfinance that have accumulated over the past three decades.

1.5 Shifting Currents in Microfinance Research

Already a fair body of research has gone into microfinance operations and their economic and social effects.[3] These can be broadly summarized into three phases:

The first-generation microfinance research spanned a period from roughly the mid-1980s to the mid-1990s. It focused on poverty alleviation approaches (empowerment vs. credit vs. credit-plus), targeting (identifying which segment of the poor is more bankable), and mostly naïve "before–after" and "with–without" comparisons for impact assessments. These studies include pioneering works by Mahabub Hossain (1984, 1988), followed by BIDS (1990), and Hulme and Mosley (1996). Already by the early 1990s, there was recognition that the effectiveness of non-farm microcredit as a poverty reduction tool depends on other economy-wide factors, such as agricultural growth (Osmani 1989).

The second-generation microfinance research roughly occurred between 1995 and 2010. It focused on more statistically rigorous methods of impact assessments—including regression–discontinuity design, fixed-effects/random-effects panel regression, propensity score matching (PSM)-based "double-difference" calculation, and RCT trial embedded in a panel approach, involving both income and non-income aspects (including women's empowerment) at the household level. These studies range from Pitt and Khandker (1998), Morduch (1999), Khandker (2000) to Osmani (2012) and Field et al. (2013).

The third-generation microfinance research (2011–Present) seems to be proceeding along three directions: (a) explore learning and network externalities and spillover effects; (b) study macrolinkages of microcredit with growth and structural transformation; and (c) construct and revisit the theories of microfinance based on the dynamic understanding of the evolving internal practices of microfinance in diverse economic contexts. These studies range from Stiglitz (1990), Besley and Coate (1995), Ghatak (1999) to Aghion and Morduch (2005), Banerjee and Duflo (2011), and Mahmud and Osmani (2017).

Several research findings that have emerged from this research may be highlighted.[4] These may be grouped into three broad categories, namely, (a) economic effects of microfinance, (b) social effects of microfinance, and (c) spill overs and network externalities. Each is reviewed in turn.

1.6 Economic Effects of Microfinance

The weight of evidence is generally indicative of positive effects on the economic well-being of the "treatment group" (MFI members/borrowers) compared to the "control group" (defined as non-members/non-borrowers with "similar eligibility" criteria). These effects are measured in a variety of dimensions—income, consumption, poverty, assets, and resilience against shocks. Several findings are noteworthy.

1.6.1 Profile of the MFI Borrowers

First, those who borrow from microfinance institutions meeting their eligibility criteria (the so-called "target participants") are generally found to be poorer than the non-borrowers meeting same eligibility criteria (the so-called "target non-participants"). This has been evidenced from diverse studies (Khandker 2005; Osmani 2012). They are also found to be originating from poorer localities, possibly due to early emphasis on meeting the needs of the spatially poorer areas, but not necessarily from the most ecologically vulnerable areas. Typically, they do not represent the very poor or the poorest. In that sense, there is a "selection bias" in the selection of borrowers.

Second, however, this may create the impression that MFI borrowers are a relatively homogenous category. The evidence suggests the contrary. Judged from the income–poverty angle, MFI clients would appear to be a mixed category: while the focus is on the moderate poor (suitably defined), the extreme poor are not bypassed altogether and the non-poor belonging to the "non-target" group are also present in the mix (BIDS 1990; Zohir et al. 2001; Rahman et al. 2005).

Part of the reason for this curious mix is attributable to the land ownership criterion for selecting the borrowers (usually set on a low cutoff point, though not at the lowest possible cutoff in the landownership scale). After all, land is an imperfect targeting criterion for defining poverty status. Thus, infiltration is possible because of differing land quality at different places and may result in the deliberate relaxation of the land-based criterion. The infiltration of the non-poor is generally restricted to the lower end, comprising mostly those who are slightly above the poverty line (suitably defined).

Third, even a regular microfinance route can serve the cause of the very poor (Razzaque 2010), but the poorest of the poor may need special assistance programs such as Targeting the Ultra-Poor (TUP) which anticipates asset transfer and skill development before connecting them with routine microfinance streams (Matin and Hulme 2003).

1.6.2 *Long-Run Impact on Poverty and Asset Accumulation*

The first-generation studies focused on cross-sectional comparisons economic well-being between program participants and non-participants. Only a few studies carried out similar analysis over a long-run panel. Thus, over a period of 8 years (1991–1998), extreme poverty was reduced by 13% points in the treatment group compared to the control area eligible non-participants (Khandker 2005). However, compared to the eligible non-participants residing in the same treatment area, the matched difference extreme poverty reduction was only 5% points. The same survey, when extended to the most recent wave, indicated a much smaller poverty reduction rate. Over the 1991–2011 period, extreme poverty in the treatment group dropped by a margin of 4% points on average compared to the control group as per the double-difference method (Khandker and Samad 2013).[5] This suggests that the long-run impact of microfinance on poverty has been modest.

Whether microfinance is likely to have considerable long-term effects on economic mobility of the poor depends on the rate of asset accumulation/depletion. This issue has been explored by Osmani (2012). In any transition matrix based on consumption, income or assets, transition dynamics can be broken into three basic groups: (a) movers, (b) fallers, and (c) stayers. This can be applied to studying microfinance supported group dynamics as well. Analysis based on the transition matrix between initial and current non-land assets shows that microcredit increased the probability of moving up through the asset ladder by 4.5% and reduces the probability of falling by 7% (Osmani 2012). The matched effects were higher for borrowers for productive purposes than for those borrowing for consumption purposes, and for poor borrowers than for non-poor borrowers. The matched effect of current asset accumulation on future poverty would depend, in turn, on the return to assets ratio—a catch-all economic variable that depends on a variety of factors, including access to new technology, rate of growth in the sector of loan use and in the economy, and propensity to shocks (degree of risk aversion).

1.6.3 Impact on Resilience Against Shocks

Microfinance also helps to prevent shocks by availing consumption loans as distinct from productive loans. Consumption loans are common, though they represent a smaller share than loans for productive purposes: 63% of the microcredit borrowers used it mainly for consumption; 25% of the loan amount is used for consumption purposes (Osmani 2012). Evidence indirectly suggests consumption loans (and microcredit in general) are associated with non-erosive coping and lower level of assets depletion. Microcredit also plays the role of a substitute to asset sale by providing alternative means of consumption smoothing, thus preventing slide into poverty. However, microcredit cannot provide insurance against all kinds of shocks at all times. Microfinance needs to be combined with microinsurance, social protection, and human development. This may be the contour of the "next revolution" in the microfinance sector.

1.6.4 Spillovers and Network Externalities

Incremental economic and social effects of microfinance over the long panel seem muted, in part, due to the presence of spillovers and network externalities. One of the possible reasons for modest long-run impacts on poverty lies in the way microfinance works for non-members. In other words, it indicates strong spillover effects from members to non-members residing in the same treatment area. There is evidence on the presence of such spillover effects—facilitated by favorable social norms—in adoption of green revolution and family planning technologies and in "know-how" percolating from MFI borrowers to non-borrowers (Dev et al. 2005; Munshi and Myaux 2006).

Asset transfer programs for the ultra-poor also have spillover effects on the rural labor market. The ultra-poor program of the BRAC has helped transform the occupational choices of the poor women by inducing them to spend more time in self-employment and less in wage labor, leading to a 36% increase in annual income. More importantly, the program led to an increase in wages at the village level and its effects had spillover to other poor women who also experience labor supply and income effects (Bandiera et al. 2012). Using RCT, it was found that program (asset transfer and training program) affects outcomes among social network members (Bandiera et al. 2009), i.e., not just confined to the program members alone.

Microcredit has had positive social effects on other dimensions of well-being, not only for the borrower families, but also for their extended kin and neighborhood households. Borrower households have higher intra-household and community-level women's visibility, mobility, voice, agency, influence, aspiration, capacity to contest, and economic empowerment. Significant household- and community-level externalities in terms of women's empowerment, family planning, and children's and women's health and nutrition have been observed, especially in contexts where social divisions along ethnicity, caste, and language are found to be less obstructive.

1.6.5 Microfinance and Consumption Inequality Dynamics

Microfinance can also influence macrodynamics in inequality of consumption expenditures. This is especially true in countries with significant expansion of microfinance, both in terms of reach and depth, such as Bangladesh. The explanation goes as follows: before the rapid expansion of microcredit, liquidity constraint was binding for poor people. Many of them faced negative income shock and could not prevent their actual income falling below the "permanent income." Thus, they could not maintain the "desired" level of consumption by borrowing against future income. With the relaxation of the borrowing constraint, they can now keep the propensity to consume closer to the optimum level in line with the logic of inter-temporal smoothing (earlier MPC for the poor was kept at an artificially lower level). Thus, consumption distribution has not worsened even as income inequality has (Osmani and Sen 2011b; Osmani 2015).[6]

This explanation accounts for the rapid decline in rural poverty—from 53 to 35% over 2000–2010—one of the fastest episodes of poverty decline in South Asia. But this favorable trend in consumption inequality is contingent on rapid expansion of microcredit, as noted before, with MFI membership increasing from 8 to 34.6 million over 1996–2010. However, such favorable consumption trends via microfinance supported consumption growth at the lower end of the income distribution cannot be sustained indefinitely. As soon as microfinance growth reaches saturation point, the trend in consumption inequality would be reverted to the trend in income distribution determined by the distribution of factorial incomes.

The moot analytical point illustrated by the Bangladesh example shows that macroeffects of rapid and expanded access of MFIs can be considerable for achieving twin goals of moderating consumption inequality and rapid poverty reduction. This contrasts with international migration, which is poverty reducing but inequality enhancing. In overall scheme of things, macrolinkages mattered for microexpansion lending. Microfinance did not work alone; it was ably supported by structural transformation that harnessed relatively unskilled labor through the sectoral growth drivers of agriculture and manufacturing exports.

1.7 New Features of the Microfinance Sector

Recent research on microfinance focuses on investigating the linkages of microfinance with other sectors, inter-generational mobility issues of the MFI members and their families, spillover effects and network externalities of microfinance on other non-borrowers of the local community, fast spreading reach of urban microfinance, and understanding the evolving practices of microfinance (including tensions between the formal rules of institutional microlenders vs. the informal rules on the ground). Here we highlight the most salient issues.

1.8 Farm vs. Non-Farm Microcredit

It is traditionally assumed that microborrowers usually demand credit for non-farm sectors, or at most for non-crop agriculture such as fishery and livestock/poultry. The rationale for such behavior is in the very small land size of the borrowers. Microfinance borrowers usually have very little or no land; in fact, lack of collateralizable land assets is the principal reason as to why they are cut off from the formal credit market in the first place. In the initial two decades of operation of MFIs, this was indeed the case. About 50% of the Grameen loans were taken for livestock/poultry sector, while the remaining 50% went to non-farm sectors. The situation seems to have changed by the 2000s. There has been an almost unpredictable rise of the use of microcredit for crop agriculture—via a land tenancy market—by the landless farmers who earlier used microloans for rural non-farm purposes. This is corroborated by the rise of "pure tenants"—from 4% in 1988 to 16% in 2008 (Hossain and Bayes 2009). The "demand" of pure tenants increased as they could now lease land from others by accessing microcredit. The "supply" of land under tenancy increased because of many erstwhile landowners moved out of agriculture and started new jobs in cities and abroad. This is an example whereby the role of microcredit in farm sectors increased because of external forces—due to a positive nexus with urbanization and international migration (Hossain et al. 2016). The farm orientation of microcredit is also linked with "feminization of agriculture" (Jaim and Hossain 2011).

1.9 Changes in Lending Practices

Some of the new developments in the microfinance sector relate to the considerable modification of traditional rules for lending practices. Traditional rules of microlending emphasized a weekly repayment schedule, use of group based lending and the use of peer pressure as social collateral against default, explicit stipulation of the loan use, exclusion of consumption loans, explicit bans on simultaneous borrowing from multiple institutions, etc. These practices historically instilled certain degree of loan discipline among the MFI borrowers. However, in recent decades one can witness the relaxation of many of these criteria in practice. Evolution of lending practices away from the "one-size-fits-all" approach can be observed both within a given country as well as across countries. Mahmud and Osmani (2016) sought to explain these deviations. Several explanations provided by them are noteworthy for understanding the dynamics of microfinance in changing economic contexts.

First, the traditional weekly repayment requirement and 1-year loan cycle encourages repayment discipline. However, this has ramifications for the type of loan use. Microloans used for income generating activities (IGAs) are mostly applied to acquiring working capital (which depletes toward the end of the loan cycle) and less often or only partly for acquiring fixed capital. This has implications for the choice of products and technology. Some overlaps of loans are now allowed (half of the loan replenished after 6 months), but continuous replenishment of working capital is not allowed because it may conceal progressive bankruptcy and unsustainable loan use (loan diversion). Second, a recent study suggests that increasing repayment period helps to raise capital base, productivity and income (Field et al. 2013). Third, MFIs are still reluctant to increase the period of loan cycle since the microlenders want to keep a tab on borrowers and reassess any change in their situation (e.g., prospect of migration to urban areas, shocks to livelihoods).

Fourth, often it is argued that microfinance should pay more attention to individual specific credit requirements. However, microcredit delivery still functions like a franchise system, allowing no borrower-specific variations in loan modalities. There are good rationales for sticking to the same rule for the same type of loans: to keep the transaction cost low and to allow no discretion at the level of field officers (discretion can lead to corruption). Thus, any modifications in loan modalities are rule-based and administered uniformly from the top. For newly innovated different loan modalities, new borrower groups are defined and administered accordingly (as in the special case of agricultural or seasonal loans, microenterprise loans, etc.).

1.10 Repayment Pressure in Microfinance Sector

Microfinance is generally marked by high and very high repayment rate. In case of Grameen and BRAC, it is claimed as being in the order of 98%. This is achieved through constructing two pressure mechanisms for repayment enforcement: (a) one based on the coercive power of the MFI (where power of coercion is subject to a socially acceptable limit), (b) another based on incentives for getting further loans, loss of the savings kept with the MFI, and trust-based relationship, all reflected in the borrower's estimate of cost of non-repayment. If these two channels work smoothly, enforcement of the credit contract is ensured. However, in recent years, much has been written about regarding "excessive repayment pressure" in the microcredit sector, tarnishing somewhat the public image of MFIs. What explains this new phenomenon? One possibility is that excessive competition among MFIs, with pressure on loan officers to expand membership, has led to the expansion of microlending to borrowers who would be normally excluded from the MFI market. This may eventually lead to coercion in the likely event of their default.

However, this is not a desired institutional outcome either for the MFIs (for their public image as agencies with social mission) or for their borrowers (the cost of "repayment shocks" may be damaging in the long-term for escaping poverty). Hence, the more important question is: Why should the loan officers of MFIs be hung up on a 100% recovery rate? After all, an MFI with a true social mission (necessary for the trust-based system to operate) is not just interested in loan recovery, but is also concerned about whether such repayment ultimately leads to more poverty.

Ensuring near 100% repayment means avoiding risks (e.g., not lending to the very poor, not allowing loan flexibilities that may lead to more profitable but riskier projects, including business start-ups). However, too much risk aversion can arrest the growth of microfinance and lead to the exclusion of the "deserving very poor." Besides, not all kinds of risks can be avoided operating within the rubric of the microfinance sector alone. For instance, not much can be done in case of extreme unforeseen shocks (the frequency of such shocks has been found to be about 5% in a year among microcredit borrowers to still be manageable within acceptable default rate). Keeping risk-related defaults aside, there is a problem arising from the fact that poor people will want to take loans beyond their means of repayment in the case of emergencies (such as health shocks) or under social pressure (e.g., dowry), leading to increased risk for greater poverty. Such time-inconsistent preference cannot be ruled out. However, the point to note is that such borrowing patterns cannot be effectively addressed by strict enforcement of repayment schedule. Group liability, which helps repayment enforcement more than the monitoring of loan use, is not also of much help here. This is one of reasons why loans are diverted from their intended purposes (about a quarter of the loans are found to be used for consumption purposes in Bangladesh, contrary to the formal rule of MFIs prohibiting such use). The potential biases for shock-induced emergency loans can be addressed through other means, such as an effective system of social protection.

1.11 Blending Microfinance with Other Tools for Poverty Reduction

In short, lack of adequate public social protection lies at the root of the controversy regarding the role of MFIs in such cases. A high repayment rate alone is not enough; in such cases MFIs tend to refrain from lending to the poorest, due to the lack of ability of such borrowers to manage loans usefully. Some design changes are needed too, as a lot of microfinance is wasted on the well-off. The INM 2010 survey shows that almost half of the poor and marginally poor are left out because the latter find some of the "MFI conditions unacceptable" (Mahmud and Osmani 2016). In short, there is scope for improving targeting. New products and possibly a new delivery system are needed to minimize inclusion and exclusion errors. Even then, some groups will be left out of MFI. The left-out poorest should be served by ultra-poor programs based on asset transfer and vocational skill training programs to better prepare them for eventual inclusion in microfinance. A greater macrointerface of the microfinance sector is needed with growth, social protection, and human development programs to improve upon the poverty reduction performance of the MFIs.

1.12 Coverage of Issues in the Present Volume

The essays collected here address a range of topics, theories, data and methods within our board research framework. First 4 chapters (Chaps. 2, 3, 4) focus on how microfinance impacts on entrepreneurial development, and the rest of chapters pay attention on some other important issues related to microfinance, such as the choice of finance (Chap. 5), financial capability (Chap. 6), women's empowerment (Chap. 7), microfinance impact assessment methodologies (Chap. 8), Islamic microfinance (Chap. 9), and productivity analysis for MFIs (Chap. 10).

Chapter 2 by Newman, Schwarz, Borgia and Wei, titled "The Influence of Formal and Informal Institutions on Microcredit: Financial Inclusion for Micro-Entrepreneurs by Lender Type," applies the Helmke–Levitsky typology of informal institutions to discuss how the interaction between the formal and informal institutional environment has shaped the development of China's microfinance industry. The chapter shows that formal regulatory framework influenced commercial "for-profit" microfinance providers (village and township banks or "VTBs") and public interest microfinance providers (microcredit companies or "MCCs") in different ways. While MCCs suffer deficiencies of not being able to accept savings deposits, VTBs are restricted by the inability to charge higher risk-adjusted interest rates. Geographic separation and low levels of out-group trust constrain the development of microfinance organisations, especially when the organisations do not have strong ties to local communities.

Chapter 3 by Kumar, titled "Microfinance for Entrepreneurial Development: Study of Women's Group Enterprise Development in India" studies the role played by microfinance in enterprise development and its impact on income and employment of female entrepreneurs in rural India. The analysis draws on interviews with female members of SKDRDP, one of the largest non-governmental (not-for-profit) MFI based in India. The results show that the combination of microfinance and non-financial services has helped the female entrepreneurs to improve their income and employment.

Chapter 4 by Agbeko, Blok, Omta and Velde, titled "Perception of Microfinance Debtors and Loan Officers on the Importance of Entrepreneurial and Business Skills for Loan Repayment Rates," explore what set of entrepreneurial and business competencies are most important for loan repayment rates. Based on the discussion of seven debtors and uniCredit Ghana loan officer, the authors use Cohen's Kappa inter-rater agreement statistic to find that there is no agreement (within group comparison) among the microfinance debtors as to what they think is important for loan repayment rates. Meanwhile, loan officers have diverse opinions as to what skills they think are important for microfinance debtors' loan repayment rates.

Chapter 5 by Davutyan and Öztürkkal, titled "Choice of Finance in an Emerging Market: The Impact of Intendent Decisions, Politics and Religion," analyses a KONDA Research and Consultancy survey of 2607 people conducted in 2014 which focuses on the impact of religion and political views on the decision of saving and borrowing. The results show that religious individuals are less likely to make investment decisions together with family members especially elders. Religious people and those with a conservative lifestyle are less likely to borrow from family and friends.

Chapter 6 by Ling, Wilson and Shevellar, "Managing everyday living: Microfinance and capability," attempts to examine the perceived impact of a No Interest Scheme (NILS) loan on the financial capability of people on low incomes in Queensland, Australia. Seventeen NILS participants who have completed repaying a NILS loan were interviewed to explore how participants used NILS, their attitude toward money, their money management style; the unfreedoms participants experienced; and the perceived impact of NILS loans on participants' money management skills. The authors argue that in order for microfinance programs to achieve maximum benefit, building financial capability for their participants is as important as providing financial access.

Chapter 7 by Kulkarni, Azam, and Gaiha, "Credit, Microfinance and Empowerment," shows there are heterogeneous impacts in terms of women's empowerment across households that vary with gender defined social norms. Group lends attempts to overcome the dual problem of missing collateral and lack of intermediary capital. However, in recent years, there has been a shift toward individual lending contracts, in part a response to client complaints that group lending creates excessive peer pressure within groups. Shift of the focus to financial sustainability raises serious concerns about dilution of the outreach of microfinance (i.e., the number (breadth) and socioeconomic level (depth) of the clients served by MFIs). The trade-off exists is undeniable, but little is known about its extent. However, retaining a non-profit charter signals commitments not to divert donated resources for personal gain. This may also help attract outside capital donations and prevent mission drift. Use of existing social networks between current and new microfinance clients may help reach out to the poor at a considerably lower cost than when such networks are not used.

Chapter 8 by Oluyombo and Iriobe, titled "Microfinance Impact Assessment Methodologies: Is it Qualitative, Quantitative or Both?" discusses methodological issues on how to assess the effect of microfinance program on the participants over a given period of time. The positivists argue for the use of quantitative method to explain the reason for changes among microfinance program beneficiaries. The quantitative method leads to generalisation of result such that the outcome of sample can be used to determine the result of the population. However, the interpretivists lend their work to the inductive strategies that meaningful microfinance impact assessment cannot be determined by using quantitative methods of data collection and analysis. Rather, a coherent and useful microfinance impact should be based on qualitative methods. It is recommended that future studies should strive for the use of mixed method such that both the qualitative and quantitative approaches are used in a single study.

Chapter 9 by Tamanni and Liu, titled "What is Islamic microfinance," compressively discusses Islamic microfinance from many aspects. It shows the evolutions and main characteristics, and funding resources of Islamic microfinance. The authors also explain the difference between Islamic microfinance and conventional microfinance.

Chapter 10 by Mia, "Determinants of Total Factor Productivity in Microfinance Institutions: Evidence from Bangladesh" aims to evaluate productivity and determinants of productivity in microfinance institutions (MFIs) to support the on-going debate on sustainability in the microfinance industry. The study used the two-stage semi-parametric approach. In the first stage, the Malmquist Productivity Index (non-parametric) was employed, and it was found that MFIs in Bangladesh observed an average of 3.6% productivity progress per annum, with a declining trend toward the end of the study period. In the second stage, the regression analysis (parametric) showed that institutional characteristics, macroeconomic factors and external sources of funds significantly affect the total factor productivity (TFP) of MFIs. Findings and policy implications are further discussed.

Finally, we would like to thank all our authors for their excellent contributions and also for being patient with our demands during the editorial process. We enjoyed reading the individual chapters immensely and remain hopeful that this will be shared by our readers.

Notes

1. The terms of microcredit and microfinance are used interchangeably, though the former historically precedes the latter.
2. Indian social scientist Rajni Kothari used first the term "growing amnesia" to denote trivialization of poverty reduction goal in the age of globalization and market liberal regimes (Kothari 1993).

3. See, Osmani and Khalily (2011), Osmani and Sen (2011a) for a review of the literature and a reference to the early literature on microcredit.
4. These research findings, summarized below, mainly relate to evidence emerging from Bangladesh—the "very low-income" context where the homegrown idea of microfinance arose in the 1970s and has been subjected to extensive research since then. In 1974, Bangladesh had the second lowest per capita income in the world, per the World Bank, lowest being Rwanda; by 2015, it simultaneously entered the league of Lower Middle Income, per the World Bank classification, and into the league of Medium Human Development, per UNDP. Bangladesh's "unexpected success" has been attributed to several factors, including microfinance, as the reach of MFIs expanded rapidly throughout this period (Hossain et al. 2016; Hossain 2016).
5. Indirect evidence from Hossain and Bayes (2009) also suggests that the poverty headcount in the treatment group was lowered by 7% points compared to the control group, defined as belonging to the same land-size category.
6. To what extent this has also occurred in other countries with significant financial deepening needs to be explored further.

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