# Research reveals best paths for success as microfinance sector grows

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As the microfinance sector passes the 150 million customer mark, an intense debate continues over the movement toward greater commercialization of an arena once led by nonprofits. "Microfinance Meets the Market," just published in the *Journal of Economic Perspectives*, advances the debate, presenting new research from Jonathan Morduch of the Financial Access Initiative, housed at New York University's Wagner Graduate School of Public Service, and Robert Cull and Asli Demirgüç-Kunt of the World Bank. The research reveals complementary paths to a successful expansion of the microfinance industry.

"Arguing for a purely nonprofit or commercial approach to global microfinance services misses the point and limits the opportunities to reach a significantly broader population," commented Professor Morduch. "We shouldn't be choosing sides. By embracing both NGO and commercial options we can leverage innovation to drive down costs and expand access."

Roughly 40-to-80 percent of the populations in most developing economies lack access to formal banking services. There is general agreement that access to reliable financial services could improve the lives of hundreds of millions, perhaps billions, of low-income people currently without access to banks.

In examining 346 of the world's leading microfinance organizations covering 18 million borrowers, the research presented in "Microfinance

Meets the Market" reveals that while commercialization is a powerful trend, commercial banks such as Mexico's Compartamos and avowedly "social businesses" like Grameen Bank are not substitutes for each other. Each has benefits and limitations.

Commercial microfinance banks, as a group, make loans that on average are about four times larger than loans from non-governmental organizations (NGOs). Since poorer customers generally demand smaller loans, average loan size is a rough proxy for the poverty level of customers. Microfinance banks tend to serve a substantially better-off group of borrowers than do NGOs, and banks also serve fewer women as a share of their customers.

While many NGOs do in fact earn profits from their microfinance activities, investors seeking only financial returns would have little interest in most of the institutions serving poorer customers. Commercial investment is necessary to fund the continued expansion of microfinance, but institutions with strong social missions, many taking advantage of subsidies, remain best placed to reach and serve the poorest customers and some are doing so at massive scale. The paper shows that social investors, foundations, and public agencies remain an important part of the microfinance equation.

More information: The full article is available online, here: [http://financialaccess.org/sites/default/files/G4_Microfinance_Meets_Market_0.pdf](http://financialaccess.org/sites/default/files/G4_Microfinance_Meets_Market_0.pdf)

Source: New York University

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