THE MICROFINANCE INDUSTRY: REVOLUTION OR FOOTNOTE? 
LESSONS FOR THE NEXT 10 YEARS

In 2001, Marguerite Robinson’s seminal study\(^1\) was published, declaring that “finance delivered at the local level through the formal sector could have far-reaching effects on social and economic development and on poverty reduction.”

In the 15 years since, microfinance has successfully achieved the milestones its proponents set to realize this promise at meaningful scale:

- Outreach far surpassed the original – wildly optimistic – goal of 100 million clients.
- MFIs moved from being largely NGOs with relatively small scale and a limited funding base to include a mix of formal, regulated credit unions, cooperatives, commercial banks, and non-bank financial intermediaries (NBFIs).
- MFIs successfully “cracked” the capital markets, with diversified funding sources including local deposits, nearly 100 specialized investment funds with over $11 billion AUM, and mainstream investors, such as TPG, General Atlantic, and Canaan Partners; several MFIs have successfully gone public.
- Mainstream commercial banks, including global banking groups such as BBVA and Scotia Bank have entered the sector, and large national banks have acquired MFIs or launched dedicated subsidiaries.
- The sector largely preserved its focus on the “bottom of the pyramid” with average loan size holding steady at about $1500 and a growing emphasis on savings, insurance and remittance products.
- Microfinance consistently ranks as the largest single sector among “impact investments” according to annual surveys; combined with other BOP finance “financial inclusion” dwarfs any other impact sector.
- Microfinance is the only “impact” business model that has an extended track record of solid profitability at meaningful scale, liquidity for investors, and capacity and commitment to continued innovation to reach deeper into poor and excluded populations.

Against this narrative of goals successfully achieved, though, microfinance has faced a number of existential and strategic challenges. Now, after several years as a punching bag for the debunking industry, MF’s image may have bottomed out, providing an opportunity for a more measured effort to extract lessons from MF. These lessons can inform those focused on financial inclusion as well as impact investing more generally. Recognizing MF’s successes in financial inclusion and impact investing, articulating why it has succeeded and failed, and suggesting where it can go in the future can benefit both the MF community itself and the wider financial inclusion and impact investing communities.

How will microfinance respond and adapt to its challenges? How has it responded to concerns that it rarely helps and often harms its clients? What is the relevance of the microfinance experience to other emerging “impact” sectors? Is microfinance yesterday’s solution, to be supplanted by more cutting edge, “impactful” initiatives?

The Lehigh meeting will bring together leaders from the microfinance community – operators,

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investors, academics and analysts – and representatives of the broader impact investing and financial inclusion communities for a day of open discussions. Workshop participants will include 25-30 experienced and open-minded leaders from microfinance and the broader financial inclusion, impact investing and academic communities. The day will be organized around five questions or themes led by a moderator and small panels, but with the expectation that all participants will be expected to contribute throughout the day. The workshop’s goal is to bring the varied perspectives to bear on some of the key questions raised by the success and critiques of microfinance, with the purpose of articulating the challenges that lie ahead and the lessons that microfinance has to offer to other impact companies:

- What has MF accomplished? What can it still accomplish going forward?
- Is MF in decline? Consolidating? Being absorbed? What is its future?
- How is MF developing in different regions and what accounts for these differences?
- What are the major issues impacting and shaping the sector both globally and regionally?
- What are the successors or alternatives to the traditional MF models: financial inclusion, fintech, mobile and agency banking? Are they real alternatives and can they maintain and build on the social content that inspired MF in the first place?
- What lessons can MF’s 30-year history offer to impact investing and financial inclusion more broadly? Is MF a model for impact investing or an anomaly?

The workshop will process these different trends and developments and extract key findings to help MF practitioners and impact investors to constructively orient and position themselves for the coming years, wherever they may fall on the commercial / social spectrum. The workshop discussion will inform a paper to be circulated and presented in the microfinance and impact investing communities in the summer and fall 2017.