# Editorial

Microfinance had been a key topic in development politics and practice for more than a decade, before the academic community even discovered it as an area of research. Academics' interest in microfinance slightly rose with the year 1999, when *Jonathan Morduch* published his seminal paper "The Microfinance Promise" in the Journal of Economic Literature. Doubtless, this publication led to some additional researchers being infected by the „excitement...building about a set of unusual financial institutions prospering in distant corners of the world...united under the banner of microfinance" (*Morduch* 1999, 1569). However, all in all, microfinance continued its existence as a niche topic in academia. This seems particularly true for the economic discipline; only a small community of researchers in the area of finance were more inspired by the topic of banking for the poor than by the questions posed in the more global financial world of commercial banks and capital markets. Even the reward of the 2006 Nobel Peace Prize to the Grameen Bank in Bangladesh and its founder, *Muhammad Yunus*, hardly made a difference. In the majority, it was development practitioners who drove activities of information collection and publishing about microfinance.

"*Bad news travel fast*" is a common saying that seems to be of relevance not only for explaining the increased coverage of microfinance in the media during the last few years, but also for explaining the sudden rise in attention from the academic world. The number of research papers on microfinance multiplied since microfinance was hit by crisis soon after the US subprime crisis of 2007/2008 triggered a global financial crisis, which according to some authors has been the most severe since the banking crisis of 1931. The crisis in microfinance showed some similarities to the symptoms of the global financial crisis, first and foremost a sharp rise in rates of arrears in the loan portfolios of microfinance institutions, while – perhaps due to the short maturities of the micro loan business and the support by foreign owners and donors – a shortage of liquidity appeared to be less of a problem. Being suddenly confronted with a problem of non-performing loans was bad enough, however, as the excellent repayment performance of micro clients had been the crown jewel of microfinance institutions (MFIs). Unexpectedly high loan write-offs were not only a threat to MFIs' sustainability, but also to the reputation of the microfinance approach as such. Micro borrowers being trapped in over-indebtedness; this was an impact on borrowers almost opposite to what was promised, i.e. paving a way out of poverty.

As if the economic shock with its fatal social consequences was not yet bad enough, microfinance was confronted with another attack at almost the same time. Quite unexpectedly, it came from the academic world. Researchers had applied modern methods of impact measurement, so called experimental or quasi-experimental designs, to microfinance interventions, and the impact that was recorded stayed way behind of what some advocates of the microfinance approach had promised. Instead of lifting millions out of poverty, rather moderate improvements caused by microfinance such as increased business activities were reported. The media picked up on these results, and microfinance found itself in a kind of twin-crisis, an economic crisis and an impact crisis, both occurring more or less at the same time.

Today it seems safe to say: Microfinance has overcome its crisis. Most MFIs survived, and so did the microfinance approach as a development tool, but all the same: the world of microfinance has somewhat changed. A sceptical view of the public has taken the place of outright support, and certainly, the boom of microfinance came to a halt. What is the state of microfinance after the crisis? What are the lessons to be learnt from the crisis? And what is the future of microfinance to be expected? Directly or indirectly, all authors in this volume try to contribute towards answering these questions.

"The Financial Crisis – a Microfinance Perspective" – as the title of their paper indicates, *Charlotte Wagner and Adalbert Winkler* analyse differences and similarities between the financial crisis and the crises in microfinance on the macro level. Their analysis is twofold. On the one hand, they convincingly argue that what might be mistaken for a similarity on first sight – namely that both, subprime loans triggering the financial crisis and micro loans, are directed towards low-income target groups – turns out to be quite the opposite when taking a closer look. While subprime loans were taking a bet on the rise of real estate prices, micro loans were and are an investment in the entrepreneurial abilities of the borrowers. Accordingly, as long as the extension of micro loans goes along with a thorough analysis of clients' repayment capacity and personality, no secret risk in any way comparable to that of subprime lending is slumbering in microcredit. On the other hand, the authors take the economic crisis in microfinance as a clear indication that the relatively new asset class of microloans has completed its first boom and bust cycle. In their view, the microfinance sector is not as detached from the global financial markets anymore as it was when microfinance was praised for being almost immune to the general business cycle. Accordingly, more of the same, i.e. a more cyclical movement, can be expected in the future, as a natural consequence of microfinance's success of "*meeting the market*". As it seems neither possible nor desirable to turn back the clock, microfinance has to adapt to these new cyclical risks.

Closely linked to the second topic of *Wagner/Winkler*, but taking more of a microeconomic perspective, is the paper of *Martin Brown, Benjamin Guin, and Karolin Kirschenmann*. They pose the question whether a more commercialised approach, which is characteristic for the larger, financially more successful micro banks, more or less automatically leads to a neglect of the MFI's social mission. Based on a thorough review of the corresponding literature, they come to the conclusion that no systematic evidence of mission drift indispensably going along with commercialisation can be found. Even if there is evidence for financially successful MFIs moving up the market and additionally serving bigger clients, this does not mean that the original target group is abandoned. On the contrary, an extension of customer base allows efficiency gains, which in turn is favourable to broaden the outreach to low-income clients in absolute numbers. Complementary to the literature review, the authors present new evidence from their own research. Based on an econometric analysis of a data set on households' access to and use of bank accounts in four Eastern European countries, they find inter alia that the opening of a new branch of one of the most successful micro banks in locations where a big commercial retail bank is already present actually leads to a significant increase of low-income households having access to banking services. Micro banks, although taking a more commercialised approach, actually have an added value over purely commercial banks in exactly the way that was promised.

Whether access to banking services, in the light of newest impact research, in fact can be expected to support an improvement in livelihoods of the poor, is the subject of my own paper. By way of reviewing evidence on the two topics which were at the heart of microfinance's impact crisis – over-indebtedness on the one hand, and a lack of sufficient positive impact on the other –, the paper tries to contribute to a more realistic picture of microfinance. It comes to the conclusion that without any doubt borrowing money is inherently risky. It is in the very nature of a credit contract that a loan has to be served even if the business of the borrower is not going well. Accordingly, the risk of over-indebtedness can be mitigated by responsible finance and thorough credit analysis, but it hardly can be eliminated. On the positive side, the microfinance approach is showing impact on the livelihoods of low-income people, even if it is only moderate; and most likely results would have been more encouraging if modern methods of impact measurement had been applied in the early days of microfinance. Furthermore, the microfinance approach has a quite favourable cost impact ratio on its side: Moderate impacts will flow for many, many years while sustainable MFIs were built with support for a limited period of time.

The most forward-looking contribution to this volume is the one by *Bernd Balkenhol, Markus Frölich, Niels Kemper, and Patricia Richter*. They report on an initiative which puts modern methods of impact measurement to its best use. The "Microfinance for Decent Work" (MF4DW) initiative of the *International Labour Organisation* (ILO) called on MFIs for their suggestions on how innovations in their service could improve the working conditions of their clients, their families or their employees. The most promising suggestions were selected for pilot implementation; and the pilots were accompanied by an impact evaluation with an experimental or quasi-experimental design. Although the results of these impact evaluations are not yet available, the experiences collected during the implementation and evaluation process offer extremely valuable insights for similar endeavours in the future. On the one hand, a wide range of unexpected impediments had to be overcome or dealt with during the process, making quite clear that impact measurements are far from being laboratory experiments, no matter how rigorous the set-up might have been at the start. On the other hand, the design of the MF4DW initiative, characterised by the dovetailing of innovation in microfinance service and impact measurement, gives the unique chance to identify which innovations work, and which ones do not produce the desired results. Therefore, this design is a role model for securing and improving the impact of microfinance in the future.

Summing up, the contributions in this volume share a common spirit: Microfinance has overcome the crisis, and it is having a future as a development tool. Microfinance is not without risk for the clients or the sector as a whole, but positive impacts can be expected and – last not least via the tools of rigorous impact measurement – services can be systematically improved to mitigate risks for clients and to draw reality closer to the more promising future of low-income people which the microfinance approach originally stood for.

*Sincerely yours Eva Terberger*