WSAS' Views on Women's World Banking President Mary Ellen Iskenderian's Blog
http://blogs.hbr.org/cs/2010/11/righting_the_ship_of_indian_mi.html#comments-open
Nov. 10, 2010

I agree with Ms. Iskenderian's statements about righting things in Indian microfinance, and I was struck by what I believe is their broad applicability to microfinance in most countries. Her last point, that "MFIs founder when they lose deep knowledge of customers", rang particularly true to me.

But I was also struck by what the implications of this vital know-your-client rule may be for microfinance institutions (MFIs) to be the financially-successful, socially-oriented service providers which most industry observers desire.

First, how can microfinance serve hundreds of millions of people well, when each loan officer can really know/serve *maybe* 500 people? The negative implication of this for microfinance is that it will be very hard to reduce costs of delivery, given staffing overheads. A positive side may be that a lot of new, socially-productive jobs can be created by MFIs for the burgeoning educated youth population in most developing economies. If deep knowledge of clients is possible only by people facing them, as I posit (technology and credit bureaus alone won't get the job done - they still require inputs from client-knowledgeable people), there are a lot of socio-economic positives in MFIs being major sources of employment! These are service delivery costs social investors should readily accept.

Second, what are the implications of competition for providing "access to finance" in a socially-oriented way? Competition can be a positive factor in growing access to finance and in improving terms of service for clients in areas where some access already exists. But as has been seen, it isnot an unalloyed good. If a negative effect of competition in providing microcredit and microsaving are battles for market-share, to the detriment of concerns about client over-indebtedness and increased riskiness in lending, there may be value for all stakeholders in establishing formal 'territories' for each MFI.

Social businesses may need/deserve some exclusivity in return for services they provide (for MFIs, for their 'access to financial services' contributions), in conjunction with some regulation of their profit margins, such as is commonly applied to utilities providers (although I recognize this is not always done well!). Of course, the profit margin must account for the staffing costs required to provide financial services well. And, instead of having MFIs crowd into certain territories, a territorial license approach may speed overall access to finance by poor people, as parties wishing to provide microfinance have to seek out un-served areas.