

The Economics of Microfinance

Second Edition

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**The MIT Press
Cambridge, Massachusetts
London, England**

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This book was set in Palatino by Toppan Best-set Premedia Limited.
Printed and bound in the United States of America.

Library of Congress Cataloging-in-Publication Data

Armendáriz, Beatriz.

The economics of microfinance / Beatriz Armendáriz and Jonathan Morduch.—
2nd ed.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-262-01410-6 (hardcover : alk. paper)—ISBN 978-0-262-51398-2 (pbk. : alk. paper) 1. Microfinance. I. Morduch, Jonathan. II. Title.

HG178.3.A76 2010

332—dc22

2009034760

10 9 8 7 6 5 4 3 2 1

Preface to the Second Edition

When we started writing this book in 1998, the idea of microfinance was already gaining ground. But it did not fully burst onto the global scene until around the time that the first edition of *The Economics of Microfinance* was published in 2005. The year 2005 marked the United Nations International Year of Microcredit, a worldwide celebration that engaged banks, governments, philanthropists and the media. Kofi Annan, then Secretary-General of the United Nations, lauded the social promise of microfinance as “an integral part of our collective effort to meet the Millennium Development Goals” (United Nations 2003). In November 2005, *The Economist* devoted a special supplement to microfinance with a decidedly commercial slant. Newspapers, blogs, and television shows started to cover microfinance with greater frequency. The UN year was followed by the announcement in Oslo that the 2006 Nobel Peace Prize would go to Muhammad Yunus and Grameen Bank, the most visible microfinance pioneers. The Nobel Prize brought even more media attention, investment, and research.

Microfinance itself has also been transforming. When we started writing the first edition, the most comprehensive global count of microfinance customers totaled 13 million customers. By the time the first edition went to press, the count had reached 67 million. By the end of 2007, the number had swelled to 155 million, with \$5.4 billion invested in the sector in that year. By the time you read this, the number of customers may well exceed 200 million. Many are women: the most recent count shows that women made up 71 percent of the 155 million customers at the end of 2007 (Daley-Harris 2009).

The expansion of scale and investment has brought new ideas and new debates. Like the first edition of this book, the second edition aims

to provide an honest reckoning rather than a pure celebration. Most in the microfinance sector have embraced the pursuit of profit, but not with identical degrees of ease and enthusiasm. If there is one unresolved tension that animates those who spend their days working on microfinance, it entails how to navigate the trade-offs between maximizing social impact and building strong, large financial institutions. It is a healthy tension, but an inescapable one.

New to this edition is a chapter on commercialization. We take up tensions and debates directly, define financial terms, and give an empirical assessment of the full financial landscape so far.

The past six years have also seen an outpouring of work on savings and insurance, much of it framed within the emerging academic field of behavioral economics. The first edition strongly pointed in the direction in which the work proceeded, and we're pleased to describe new ideas and evidence. Chapter 6, on savings and insurance, is thus considerably bulked up.

Chapter 9, on impact evaluations, has also grown. When we wrote the chapter for the first edition, we had to conclude that more evaluations should be done—and we awaited them. As we go to press for the second edition, we can happily report on a handful of excellent new studies. Perhaps more important, we can report on a set of newly refined evaluation tools based on randomized control trials. The new results show mixed impacts of microfinance. Microfinance advocates may be disappointed by the lack of stronger results so far, but the evidence should be taken as a prompt to return to basic assumptions with an eye toward improved solutions.

Apart from these large changes, we have taken the chance to update data and describe new studies in nearly every chapter. Chapter 7 on gender and microfinance has been particularly revised, reflecting the importance of women among microfinance customers—and as agents of social change in their families and communities.

As with the first edition, familiarity with economics will help, and we use mathematical notation where it clarifies arguments, but the main points can be understood without the math. We have especially tried to make the book engaging for undergraduates and graduate students in economics and public policy (and have fully updated the exercises at the end of each chapter; as before some are written for advanced economics students with a desire for analytical challenge).

We were pleased to find that microfinance practitioners and policy-makers found useful discussion in the first edition. In response, the second edition is even more focused on drawing analytical lessons that extend outside the bounds of classrooms and seminar rooms.

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