

Innovations From the Field

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When the Microcredit Summit Campaign was launched in 1997—with a 9-year goal of providing financial services to 100 million of the world’s poorest families—there were 1,700 members of the Campaign worldwide, of which 800 were members of the Campaign’s Council of Practitioners. Five years later the total number of institutions that have joined the Campaign is more than 4,500, of which more than 2,800 (and still continuing to grow briskly) have joined the Campaign’s Council of Practitioners.¹ These remarkable numbers represent a diverse spectrum of organizations—public and private, indigenous and international, nonprofit and for-profit, independent and networked, urban and rural, regulated and unregulated. Collectively they display many differences with regard to client focus, mission, strategy, products and services, funding, oversight, managerial expertise, technical sophistication, and governance structures. To an increasing degree the rapidly swelling numbers of microfinance institutions (MFIs) are not merely the result of tiny new nonprofit start-ups created to serve the poor. Rather, many of the newest or at least largest entrants are *existing* institutions (mainly banks) that are restructuring themselves to seek new clients among low-income segments of the financial services markets which, until now, were previously seen as un-bankable and credit-ineligible.

The very quantity and variety of these microfinance practitioners is already producing intensified competition, including market saturation in a growing number of locales. It is also stimulating widespread innovation and, in a few cases, exciting breakthroughs in scale and depth of outreach. Such competition and innovation is good news for the poor and poorest clients because their range of choice is growing steadily wider. As these clients begin to shop for the microfinance products and services that best fit their needs, such behavior will stimulate even more competition and innovation. Several different *kinds* of innovation are occurring as well. First and foremost, steady improvements are being made in traditional loan and savings products as well as such complimentary products such as insurance. In turn, these changes have in some cases led to major shifts in MFI business strategy—like the grafting of the infrastructures of commercial branch banking with the infrastructure of community-based peer lending groups largely created by NGOs serving the poor. Many innovations are also occurring *outside* the financial services area as MFIs create “strategic alliances” with NGOs or companies offering to channel complimentary client services such as business skills, health care, nutrition, water and sanitation, housing, schooling, human rights, literacy, and many others. At the same time, equally important innovations are occurring in the administration, financing, governance, evaluation, and legal status of the practitioner institutions themselves. Even the traditional profile of clients served is changing, as some MFIs no longer merely seek to serve the poor or the poorest families (as defined by an income or asset criterion) but the most vulnerable or marginal groups within this broad population—such as street children, young adults, families with chronic disease, seniors, refugees, victims of natural

¹ Taken from the Microcredit Summit Campaign database May 20, 2002.

disaster or terrorism, pastoral populations, landless rural laborers, outcastes, and tribal groups.

Faced with such a wealth of innovation on the one hand, and a paper length limitation on the other, the authors have consciously chosen breadth over depth. Rather than covering a few key innovations in detail, we have reported more superficially on nearly four dozen innovations. To counteract a tendency to place disproportionate emphasis on client products and services, we created five additional categories of innovation-- financing, administration and governance, program evaluation, and response to emergencies. In late January 2002 the authors sent out an e-mail request to a Microcredit Summit Campaign mailing list. We received about 60 responses, of which we selected 20 of the best-documented or most interesting innovations. A second source (about ten cases) came from among MFIs that were awarded innovation grants under CGAP's Pro-Poor Innovation Challenge Program. A third source (five cases) were case studies gathered in direct contacts with MFI representatives attending the 5th Annual Microenterprise Conference held at Brigham Young University March 14-16, 2002. A fourth source was SEEP's draft manual entitled *New Directions in Poverty Finance*, which mainly reviews innovation in Village Banking programs. And finally, several innovations were "discovered" while doing web research on microfinance programs in certain regions and countries. Unfortunately, given these diverse sources of reporting, we were unsuccessful in structuring the responses to answer a uniform set of questions about the context of innovations received—like (1) background and outreach of the innovating program, (2) problem addressed, (3) cost, (4) proof of effectiveness, (5) risks or tradeoffs encountered, etc. Such deepening of content will need to be incorporated into future efforts to document innovations in our far-flung industry.

We recognize we may have assigned ourselves a "mission impossible". No doubt many readers will be disappointed that most of our descriptions of individual innovations have by necessity been limited to a single paragraph. Other readers who are personally familiar with the cases we have chosen will inevitably find fault with the veracity of the descriptions, that are not based on our own first-hand observations but on brief reports submitted by MFI staff in the field (or cited on their web-sites) and are therefore not as objective or complete as one would like. No doubt there will still be other readers who know of more successful examples of the types of innovations we have reported, or innovations we missed entirely. To these individuals we can only say we mostly reported on innovations from MFIs that took the trouble to answer our e-mails. Those who didn't, or reported late, were simply not well represented in this study. To compensate for some of these defects, however, each innovation description references the name of the sponsoring microcredit institution and its contact information. In this way we hope readers seeking additional detail about a particular innovation will contact the sponsoring institution directly.