

Microfinance Services for Disadvantaged and Marginal Clientele Groups

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Abstract

Today millions of poor people in developing countries have access to financial services. "Alternative financial institutions" hold about 150 million loans outstanding, but that is a relatively small number compared to the millions estimated to demand small loans. This problem exists in spite of the much acclaimed microfinance revolution. This paper enumerates the successes of microfinance, reviews important constraints, and identifies several innovations to further expand the financial frontier.

Although outreach measured as number of clients served has grown rapidly, most microfinance institutions (MFIs) are unprofitable once subsidies are taken into account. Studies of impact on the clients give mixed results. Although most MFIs argue that they serve the poorest, there is little evidence to support this assertion. Many MFIs target women who are usually among the poorest in most countries, but detailed studies of loan portfolios tend to show clients are largely clustered around a country's poverty line and relatively few are very poor. MFIs also face challenges in serving agriculture and rural areas because of the high operating costs involved in reaching dispersed populations and in making small loans to farmers with risky enterprises and seasonal cash flows.

Fortunately, many innovations in *products, technologies, and linkages* between financial institutions are pushing out the financial frontier by lowering financial costs and risks. These changes are critical to expand outreach, ensure the profitability and sustainability of financial institutions, and improve the impact on clients.