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MAKING SENSE OF MICROFINANCE

THE PUZZLE

- Marginal returns are high
- Micro-loans are available but…
- A lot of people don't want them
  - Though they borrow from money lenders
- Business growth is very limited.
  - Most microenterprises will ever have an employee
- Loans don't get paid down

LIMITS OF MICRO-CREDIT

- The loans are not designed for risk-taking
  - Repayment starts immediately
  - There is no flexibility about time of payment
  - Zero tolerance of default
- People do very different things when they take a micro-loan and when they get a “gift”
- Does not seem to be the case
  - May be we need to look more closely

THE MISSING MIDDLE

- What is the shape of the technology?
- Is growing beyond a particular size hard?
- Are the people who build very large firms special?
- Or is it just that you have to cross some threshold to get going?
- What happens if you don't expect to be able to cross the threshold?

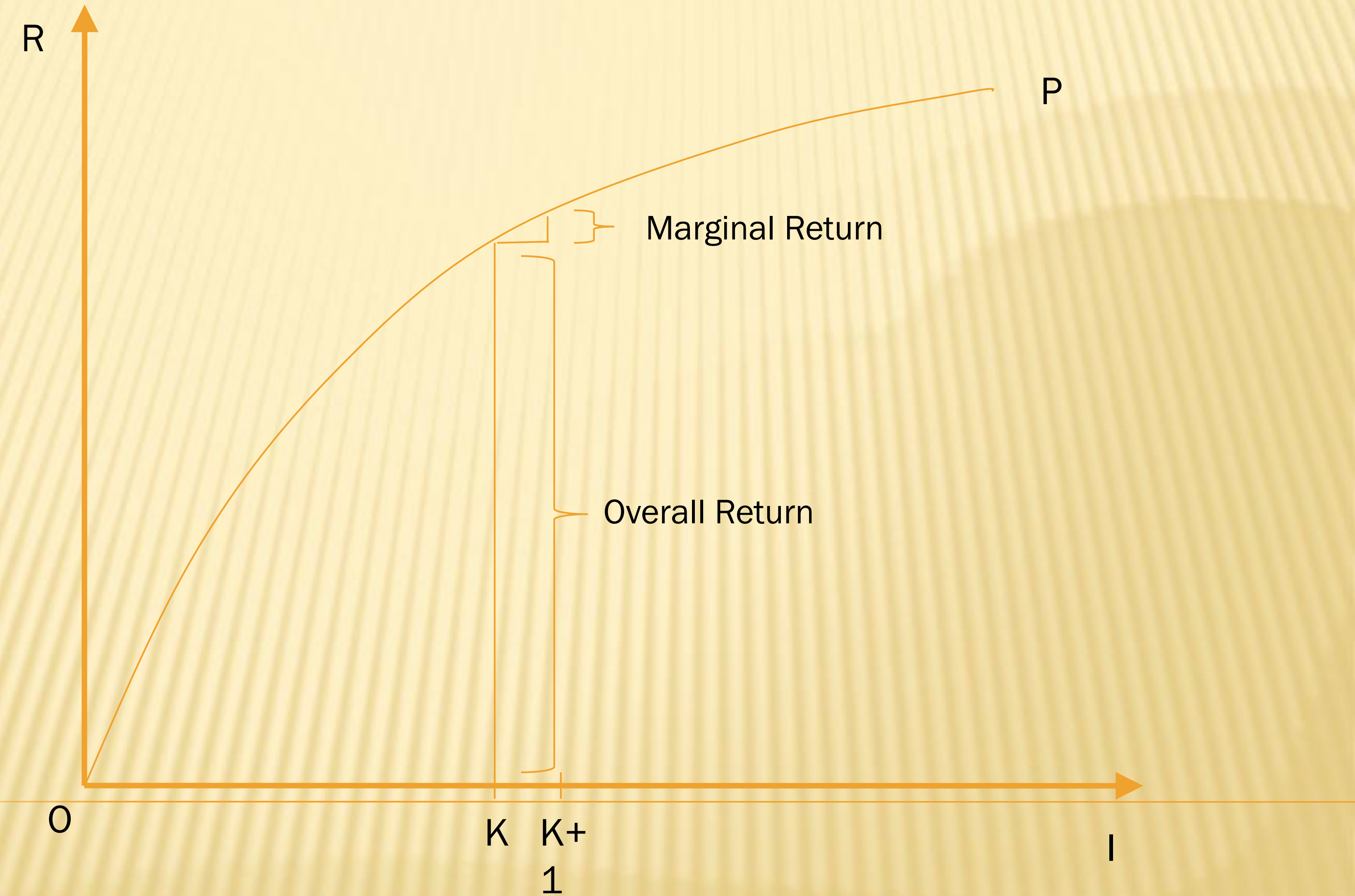

Figure 1: Marginal and Average return

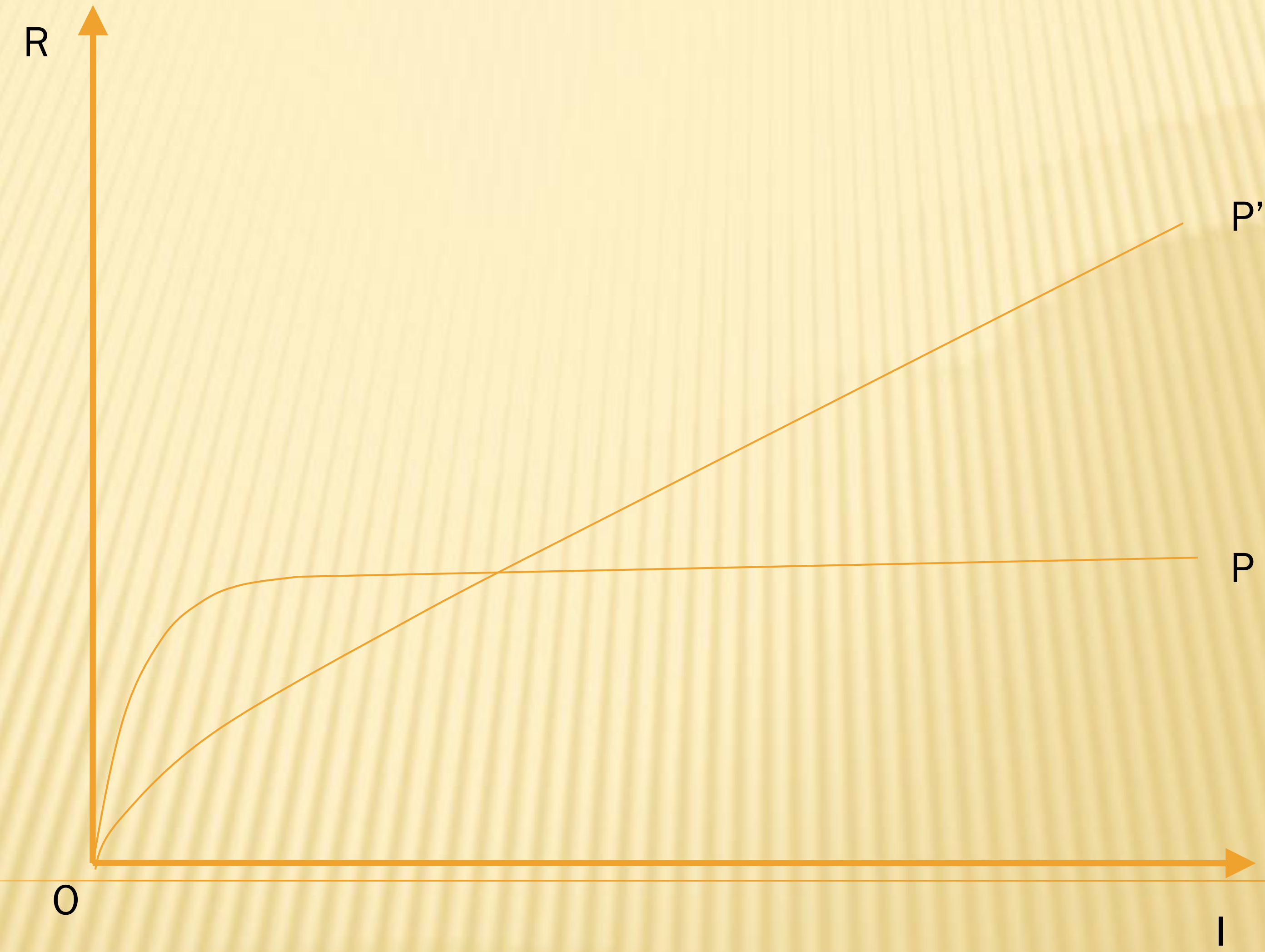

Figure 2: Two Technologies

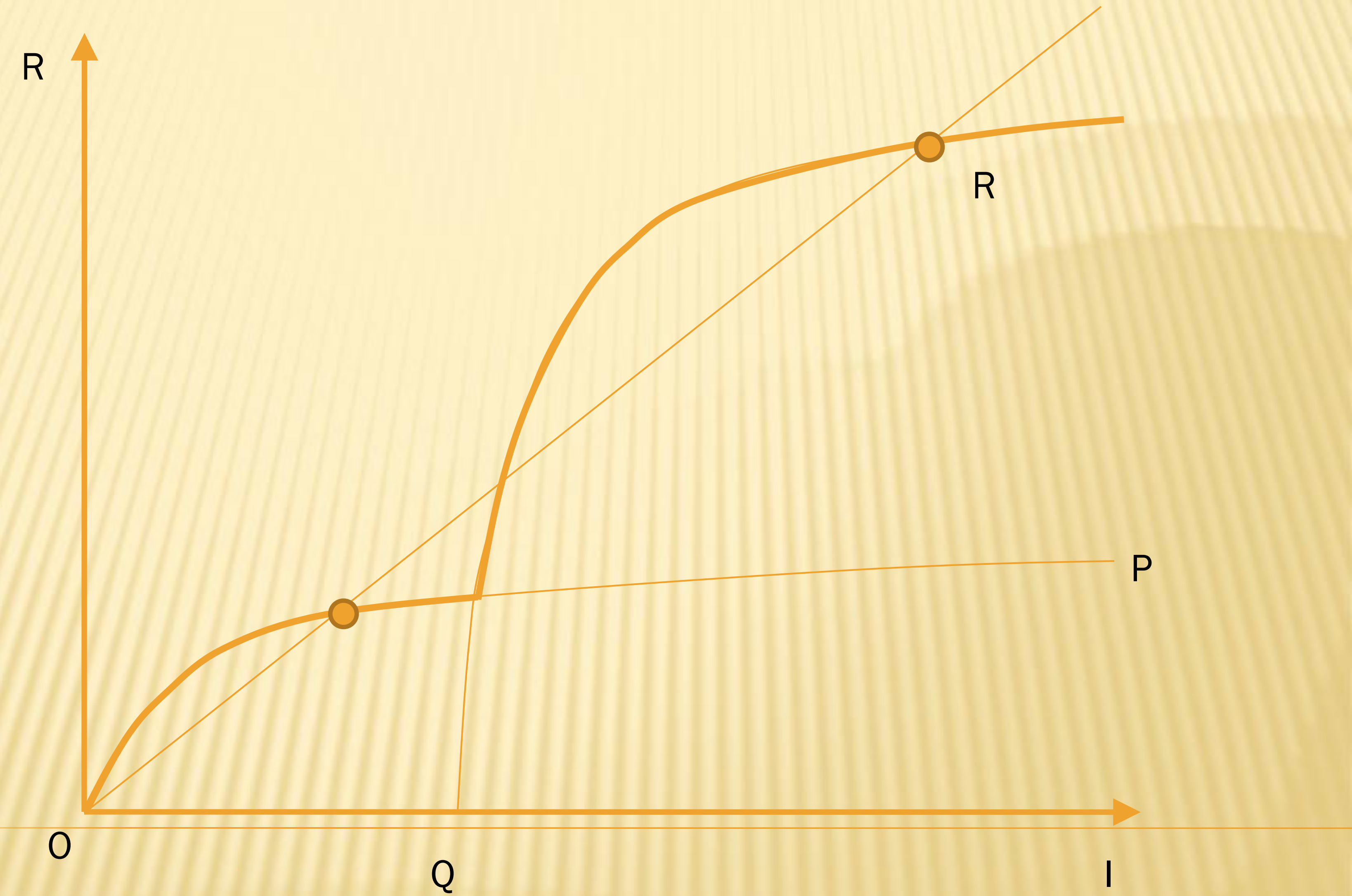

Figure 3: Combining Technologies and the S-Shape of entrepreneurship

THE RELUCTANT ENTREPRENEUR

- May be being an entrepreneur is not what people aspire to.
- Perhaps it is a way to “buy” a job.
  - Especially a job for your wife that allows her to keep minding the children and cooking the meals.
- This why the business never grows—she has no time for it. It is not intended to grow
  - This is why De Mel, Mackenzie and Woodruff find what they find for women
- Do women actually always want the opportunity?

MY GUESS

- All three stories probably have something to them
- The next frontier of microfinance research will be to figure out which of these stories is most right
- And how to respond to what we learn.