Microfinance

Mario La Torre

and

Gianfranco A. Vento

With contributions from Monica M. Ortolani, Silvia Trezza and Marco Tutino
# Contents

List of Tables x
List of Figures xi
List of Boxes xii
Preface and Acknowledgements xiii
Notes on the Contributors xiv
Introduction xvi

## 1 A New Conception of Microfinance

*Mario La Torre*

1.1 Introduction 1
1.2 The nature of microfinance: microfinance vs microcredit 2
1.3 The demand for microfinance 3
1.4 The supply of microfinance 5
1.5 Products and services in microfinance 8
1.6 A new taxonomy for microfinance 9
1.7 Microfinance and ethical finance 11
1.8 Conclusion 18

## 2 Products and Services in Modern Microfinance

*Silvia Trezza*

2.1 Introduction 20
2.2 Financial services 21
2.3 Product development process 31
2.4 Non financial services: minimalist vs integrated approach 34
2.5 New frontiers in microfinance services 35
2.6 Conclusion 36
3 The Main Features of Microcredit

Gianfranco Vento

3.1 Introduction 38
3.2 The screening of beneficiaries 39
3.3 The nature of financed assets 41
3.4 Distinguishing features of microcredits 42
3.5 Collateral policies 44
3.6 Interest rates in microcredit 50
3.7 Conclusion 53

4 Sustainability and Outreach: the Goals of Microfinance

Gianfranco Vento

4.1 Introduction 54
4.2 Sustainability and outreach 55
4.3 Sustainability: how to reach it 59
4.4 Outreach: how to select the beneficiaries 62
4.5 The microfinance dilemma: sustainability vs outreach 64
4.6 The policies for improving sustainability 66
4.7 Conclusion 69

5 Risk Management in Microfinance

Mario La Torre

5.1 Introduction 71
5.2 A taxonomy of risks for microfinance 72
5.3 The business risk 73
5.4 Financial risks 75
5.5 Process risks 89
5.6 Conclusion 91

6 Monitoring the Microfinance Processes

Monica M. Ortolani

6.1 Introduction 93
6.2 Reasons for a process approach 94
6.3 Microfinance processes 95
6.4 The process of microcredit 98
6.5 Process-related risks 102
6.6 Control typologies 105
6.7 The incentive system 108
6.8 Conclusion 110

7 Microfinance Performance 112
Marco Tutino

7.1 Introduction 112
7.2 Performance analysis 113
7.3 Performance evaluation model for microfinance project 116
7.4 Performance evaluation models for MFIs 120
7.5 Conclusion 130

8 The Role of Regulation 132
Gianfranco Vento

8.1 Introduction 132
8.2 Regulation, supervision and microfinance 133
8.3 Determinants for regulating microfinance 134
8.4 Key variables for microfinance regulation 138
8.5 Which instruments to adopt 144
8.6 Conclusion 149

9 The Road Ahead: A Platform for Microfinance 151
Mario La Torre

9.1 Introduction 151
9.2 The features of modern microfinance 151
9.3 The microfinance platform: actors and functions 153
9.4 Conclusion 157

Notes 158

Bibliography 160

Index 171