Editorial

THE SUBJECT OF COMMERCIAL MICROFINANCE INVESTMENT provokes a strong reaction for me as it does for many in the field – especially in the wake of the scandals that have rocked the industry in recent years. My gut reaction to microfinance investing – particularly the commercial side – is not unlike that of Muhammad Yunus. I remember his words following the SKS IPO (initial public offering) in India:

> By offering an IPO, you are sending a message to the people buying the IPO that there is an exciting chance of making money out of poor people. This is an idea that is repulsive to me. Microfinance is in the direction of helping the poor retain their money rather than redirecting it in the direction of rich people.

However, as Beth Rhyne reminded us in the editorial of the March 2005 issue of the journal, the main rationale for commercial investment in microfinance is reaching many more people than could be reached if we relied on donor-funded microfinance. 'The challenge of finding funds to finance these millions of microloans requires microfinance institutions (MFIs) to tap increasingly large pools of funds and to find sources that are reliably available at an advantageous cost.' That issue of the journal examined financing mechanisms that were new at the time, such as the bond issues of Compartamos in Mexico and Mibanco in Peru. On the one hand, we remember the controversy surrounding Compartamos's IPO in 2007, but on the other we note that Mibanco received US$45 m to invest in women micro-entrepreneurs in 2010. For this investment, IDB leveraged local currency, partnered with Blue Orchard, Oikocredit, and the Calvert Foundation, and delivered business training to women micro-entrepreneurs.

But, the right or wrong of commercial investing in microfinance institutions is not the debate at hand – and as an industry we continue to investigate new ways of creating a system with checks and balances so that the success stories predominate. The good news for those of us who have been sceptical is that there are ways forward that promise regulation, transparency, and choice.

Paul DiLeo of Grassroots Capital persuasively argues that we must not insist that all microfinance investing has a balanced double bottom line, but we must be clear on the objectives of the investment. He states that an important part of this clarification will be to acknowledge that not all investors or microfinance institutions share the identical mix of social and financial objectives and on occasion choices among objectives will have to be made. He describes how tools are becoming available

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that can make these priorities more transparent and predictable so as to match more closely the objectives and expectations of MFIs and investors. One of the hopes is that this transparency and approach will set the evolving standard on improving microfinance's effectiveness in achieving its social objectives.

Cécile Lepanu of CERISE and Ging Ledesma of Oikocredit take a hard look at social performance which, from their perspective, is becoming an integral part of assessments of microfinance institutions and is gaining ground in the investment world. In particular, the paper focuses on the example of the Social Audit tool for Microfinance investment vehicles (SAM), which was designed to analyse investment funds' strategies and activities with a view to strengthen and systematize their social responsibility approach.

The paper by Ana Marr and Paola Tubaro compares and contrasts the 'wholesale' market through which microfinance institutions operating in Peru, Tanzania, and the state of Tamil Nadu in India obtain credit. Through the analysis of their original research, the authors make the case that building a more enabling regulatory environment for lending partnerships may improve the capacity of microfinance to pursue its social mission.

Camilla Nestor and Jill Chen of Grameen Foundation identify local investment as a critical factor for improved microfinance investing and explore the role of guarantees in opening up this market. Local currency mitigates foreign exchange risk. Not only can guarantees strategically open up local markets but, over time, they can also reduce the amount of guarantee required as local banks become more comfortable.

An excellent non-theme paper on entrepreneurship training is included in this issue. Matthias Glaub and Michael Frese argue that the published literature suggests that entrepreneurship training is an effective means of promoting entrepreneurship. His paper reviews 30 published and unpublished studies that evaluated 10 different entrepreneurship training programmes in developing countries. He found that the majority of these evaluation studies face serious methodological problems, thus limiting the conclusiveness of their results. So, although he is positive about entrepreneurship training, Glaub stresses that it is essential to apply sound methodology to evaluate such training.

The Crossfire debate opens up a whole new area for the journal about which I hope we can learn more – Islamic banking. It illustrates that there may be different ways of approaching microfinance and microfinance investing than the conventional Western banking models that have taken hold (with some tweaks). Badr El Din Ibrahim and Malcolm Harper take on the debate which provides some insights into this alternative.

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