Editorial

This issue of the journal explores the recent growth and outreach of microfinance: what are the additional services or partnerships that are needed to make expansion successful? Are services sustainable as well as true to the social mission? And what is the impact of the services – both positive and negative?

Two years after we were shaken by the dramatic events precipitated by the rapidly expanding microfinance sector in Andhra Pradesh (AP), India, we reflect on the causes and consequences of the situation. The *Taking Stock* column by Sanjay Sinha provides an overview of what has taken place since the crisis in 2010 when dozens of over-indebted farmers committed suicide. Sinha explores the changes in the policy environment and what the implications are for the sector and microfinance clients. Priyadarshee and Ghalib's article offers a more targeted, in-depth analysis of the mechanisms that caused the crisis in AP: a weak regulatory environment, the promise of large profits for institutions and shareholders, dumping of loans through self-help groups, 'aspiration paradox' on the part of clients, and coercive measures to recover loans. They then discuss the various regulatory measures that the governments of AP and India undertook to regulate microfinance practices in the country, arguing that the government's response to the crisis has not addressed the main underlying issue of unequal distribution of the community institutional infrastructure base for delivery of microfinance among different states in India. The book review, *Behind the Beautiful Forevers: Life, Death and Hope in a Mumbai Undercity*, from another state in India, also illustrates the dilemma faced by the rapid rise in wealth and the disparities it has created.

We then turn our attention to Peru, and the growth of the sector through wholesale lending and bank equity investments. Ana Marr presents a case study and situates it within the overall Peruvian microfinance wholesale lending market of nearly 200 organizations. A key finding of the paper is that some new and highly diverse lending relationships are forged while others do not develop. There is a tendency for specialization where commercial lenders partner with regulated microfinance institutions while NGOs struggle to find lenders even among the socially motivated type. Felipe Portocarrero M. and colleagues also examine the situation in Peru, but from the perspective of how commercial banks are most successful in entering the microfinance market. The study compares the cases of four major banks that acquired Peruvian microfinance institutions, positing

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that banks have sought equity investments in MFIs to attain deeper outreach among poor clients. The paper proposes that bank participation in the microfinance sector is both profitable and has a positive social impact, at least in the medium term, since it leads to reduced interest rates, greater efficiency, and improved risk management.

From a region of the world that we cover less often in the journal, and from a perspective that is not as well known by our readers, Dinuk S. Jayasuriya describes private sector development in Papua New Guinea and China. Two case studies present a picture of how the International Finance Corporation, a member of the World Bank Group, invests in financial institutions while providing technical assistance to build organizational capacity. The author argues that combining advisory services with investment generates improved results, ultimately improving underserved groups' access to finance.

Florent Bédécarrats, Silvia Baur and Cécile Lapenu utilize statistical analysis to illustrate how good financial performance of MFIs can also be good for social performance, if there is a well-planned social performance strategy in place. Their analysis draws on social audit data from between 2006 and 2011, taken from 344 evaluations of 295 different MFIs in 51 countries worldwide with an overall outreach to more than 12 million borrowers. They state that their analysis proves what many studies have suggested based on incomplete data and basic analysis: social performance and financial performance are compatible. Therefore, they conclude, the double bottom line is no 'mission impossible' but can be achieved when trade-offs and synergies are combined cleverly following a well-planned social performance management strategy.

We hope you find this issue of the journal interesting, and that you will share your thoughts with us.

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