# What is the true cost of microfinance?

*Alex Counts is President and CEO of Grameen Foundation.*

Wednesday's front-page *article* in the *New York Times* by Neil MacFarquhar raised some important issues facing the microfinance industry, but, unfortunately presented a distorted picture. I had the opportunity to challenge the author about his assertions on the Takeaway *radio program*.

Ibu Yusnaini is a beneficiary of microfinance

His sweeping generalizations about interest rates, while focusing on just two countries, could lead the average reader to believe that rates above 80 percent are the norm. This is far from the truth, as evidenced by a *recent report* by the Consultative Group to Assist the Poor that found that, on average, sustainable microlenders were charging 26 percent. (Grameen Bank, our model for microfinance efficiency, charges rates from 8% to 20%, and gives interest-free loans to the ultra-poor as a transitional strategy to get them ready for regular borrowing.) The same report also noted that rates have been falling by 2.3 percent annually and that less than one percent of microfinance clients worldwide actually pay rates as high as those cited in the article. Moreover, in most of the 36 countries studied, microfinance interest rates were below the rates charged on consumer credit cards, which is an appropriate benchmark.

Most microfinance involves substantial direct contact with clients in remote locations and this can be costly. However, we believe that interest rates will continue to fall, getting closer to the rates charged by the Grameen Bank and other efficient lenders, as more institutions are able to lower their operating costs. These costs are largely driven by local factors, and this is something the article didn't adequately address. For example, in taking aim at LAPO (full disclosure: Grameen Foundation has worked with LAPO for nearly a decade), the article ignored the high costs of doing business in Nigeria and omitted the fact that it actually charges the one of the lowest interest rates among Nigerian MFIs (something that was acknowledged by the client that was interviewed).

Even so, no one is satisfied with these high rates and there are already efforts underway across the industry to help microfinance institutions (MFIs) lower their costs and deliver their services more efficiently. Grameen Foundation has been working hard to realize efficiency gains at MFIs including LAPO, and we are pleased that they reduced their interest rate by one-sixth of its previous rate (which was well below the rates cited in the article).

The article also gives an unbalanced view of the compulsory savings programs that are utilized by some MFIs. Globally, compulsory savings are used by many MFIs as an incentive to help clients develop a savings habit and build assets. In LAPO's case, more than one-third of its members also voluntarily deposit additional savings, signifying that they value the ability to save with LAPO. All LAPO clients earn interest on mandatory and voluntary savings accounts.

In addition, it confuses the role of microfinance banks, which are completely different from the regular commercial banks that would be more familiar to the average reader. For the most part, these "banks" are actually former non-profit lenders who were required to change their status because of banking regulations in their countries. This misleading distinction creates the inaccurate impression that regular commercial banks are coming to dominate the industry.

The article suggests that microfinance has not lived up to its claims of improving the lives



**Notice:** If you have received an email pretending to be from Grameen Foundation offering loans or grants to individuals, this is a *fraudulent email*.

Grameen Foundation
1101 15th St. NW, 3rd Floor
Washington, DC 20005
Phone: +1 202-628-3560
Fax: +1 202-628-3880

Grameen Foundation
Technology Center
2101 4th Ave, Suite 1550
Seattle, WA 98121
Phone: +1 206-325-6690
Fax: +1 206-325-0634

Worldwide Offices>>

**Family of Sites**

AppLab
Progress Out of Poverty
Foundation Blog
Stop Poverty Now
CKW Program
Bankers without Borders®

2006 NOBEL PEACE PRIZE