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Making Microfinance More Effective

For the 2.5 billion people who live on less than \$2 per day, shocks such as illness, crop failures, livestock deaths, farming-equipment breakdowns and even wedding or funeral expenses can be enough to tip them, their families, or even an entire community below the poverty line. A major challenge for international development efforts is determining which financial tools provide durable buffers against such setbacks.

While meeting this challenge is a clear priority for policy makers and donors, it is also a major profit opportunity for commercial players who can solve market failures and create real value. Personal savings, insurance, credit, cash transfers from family and friends and other financing mechanisms offer promising opportunities to create security and steady employment but they require a nuanced understanding of product design and the local market conditions in order to be effective.

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