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Microfinance: an overview

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Abstract

This paper presents a summary of this issue of the *Oxford Review of Economic Policy*, on microfinance. The paper explores the evolving landscape of microfinance, with particular emphasis on its broadening scope. It summarizes the four parts of this journal issue, focusing on: (i) microfinance and its providers; (ii) the challenges of taking microfinance to scale; (iii) microfinance and digital credit; and (iv) microfinance and repayment flexibility.

Keywords: microfinance, financial inclusion, digital finance, consumer protection, low-income countries

JEL classification: G21, O16, D14, O14

Introduction

Despite recent advancements, around 1.4 billion adults still lack any formal financial account, predominantly in low- and middle-income countries (CGAP, 2023). Such individuals often grapple with a complex set of risks, volatile and unpredictable incomes, and limited safety nets, especially compared to their counterparts in high-income countries. The growing impact of climate change further exacerbates these challenges, disproportionately affecting low- and middle-income countries. This highlights the critical need for a broader range of financial services in low- and middle-income countries.

Notwithstanding the challenges, this is an exciting time for discussions on microfinance and financial inclusion. About 15 years ago, when Muhammad Yunus and the Grameen Bank won the Nobel Peace Prize for microcredit, the rhetoric on the impact of microfinance had outpaced the actual evidence. Policy debates ranged from microfinance being a crucial poverty alleviation tool, to it being a contributor to debt traps. The reality proved more complex. A large wave of experimental research suggested that, on average, microfinance didn't have transformational effects on incomes. Yet, it did benefit some individuals, and it didn't cause widespread harm. While much of the initial motivation for microfinance was in terms of business investment, there was an increasing realization that not all clients were entrepreneurs, and that smoothing consumption in response to volatile incomes was an important motivation for microfinance. Despite a lack of evidence for transformational effects, many people continued to use microfinance, underscoring the significance of basic financial services in people's lives. The academic and policy debate has thus moved from '*does* microfinance work?' to '*for whom* does it work, *how* does it work, and how can it be made to *work better*?'.

A further development in microfinance policy debate has been a move beyond just discussing credit. 'Microfinance' now generally refers to a broad array of formal financial services tailored for poor and low-income individuals, and others marginalized from conventional financial systems. This expanded perspective recognizes the essential need for diverse financial services, such as savings and insurance. Insights into these needs have come both from large-scale empirical work as well as in-depth ethnographic studies and financial diaries—revealing the unique risks these households face. Advancements in technology and access to more frequent, detailed data have been instrumental in deepening our understanding of these challenges. They also enable the tailoring of financial services

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to meet these needs more effectively. This is increasingly relevant given the demographic shifts in lower- and middle-income countries, notably among tech-savvy youth.

While digital financial services hold great potential for broadening and deepening financial inclusion, policy-makers face challenging trade-offs when it comes to regulation, consumer data protection, and potential over-indebtedness. Technological advancements also offer opportunities for better integrating microfinance institutions into the formal financial system, yet significant discussions remain around the role of subsidies, and the potential for commercialization to once again exclude historically marginalized groups. Such discussions around the microfinance business model have gained urgency as traditional aid and funding to microfinance have diminished. Additionally, the interaction between formal financial services and the prevalent traditional financial systems in many low- and middle-income countries remains an important area of academic and policy discussions.

We cover many of these themes in this issue of the *Oxford Review of Economic Policy*: a combination of old and new questions, with a particular focus on the role of new information technologies for opening new possibilities. The journal issue does not aim for a general review of the microfinance literature; there are several recent reviews that describe the trajectory of academic debates on microfinance (see, for example, our co-authored summary in Cai, Meki, and Quinn (2023)). Rather, the issue draws together a set of key thinkers to cover what we—and they—see as the important emerging trends in this space. Many of the featured authors have been instrumental in shaping our current understanding of the financial lives of the poor, microcredit, savings, and insurance.

Part I of the issue deals with 'Microfinance and its providers'. It starts with a focus on one of the core purposes of microfinance—the provision of 'usefully large sums' for poor households—and goes on to discuss some of the practical and regulatory challenges in microfinance provision (including, in particular, the key role for subsidies). Part II talks about the challenge of 'Taking microfinance to scale'; here, the authors discuss the general equilibrium effects of microfinance, and heterogeneity across different kinds of microfinance clients (including a new analysis of six recent field experiments). Part III—'Microfinance and digital credit'—considers the emerging role of information technology; this part features contributions on the regulatory environment of digital financial services, the potential role of digital technologies in improving client screening, and the emerging role of digital payment systems. Finally, Part IV explores 'Microfinance and flexibility': this includes a discussion of flexibility in the form of debt relief, and the emerging scope for performance-contingent microfinance, for example in the context of value-chain relationships. As co-editors, we have contributed the final paper for the journal issue—on microequity.

Part I: Microfinance and its providers

Part I is about microfinance and its providers; the papers provide a very useful 'big-picture' look at why microfinance is useful for many borrowers, how microfinance institutions operate, and how such institutions are shaped by crises.

Stuart Rutherford opens with a fascinating discussion of the role of savings in microfinance (Rutherford, 2024). Stuart has more than 40 years' experience in speaking with poor people about how they manage their money—in at least 20 countries. It is a reflection of the breadth and the nuance of Stuart's insights that his paper for this issue—though primarily about microsavings—actually provides a very useful and insightful overview of the key themes of microfinance generally.

Central to this paper—and, indeed, central to any understanding of microfinance—is poor households' need to form what Stuart terms 'usefully large lump sums': 'for example, for tomorrow's dinner, or next month's festival, or this term's school fees, or grandmother's operation, or even for their own old age'. Stuart begins with a simple but profound observation: that non-poor households have a wide variety of mechanisms for meeting daily spending needs, and for automating all kinds of financial set-asides (including, for example, home mortgage payments, transfers to pensions, to car loans, and so on). In contrast, poor households must exert substantial time and effort to manage set-asides—whether in drawing on existing savings, or in saving for the future. This presents particular challenges for the poor to build 'usefully large lump sums'.

Stuart explains that—even from his early days in talking to Grameen clients—it was clear that many were using Grameen loans to accumulate usefully large sums; for many clients, this 'felt more like saving than borrowing'. This idea—that microfinance can build usefully upon informal traditions of lending and savings—is central to Stuart's paper and, indeed, to many of the papers in this journal issue. For example, Stuart goes on to provide four illustrations of early real-world innovations in microfinance—each of which, in different ways, involved building upon similar informal savings traditions. First, the paper describes the development of 'village banks' in Latin America, Asia, and Africa—prompted in particular by the development of FINCA in Bolivia in the mid-1980s. Second, the paper describes the role of the NGO CARE in setting up Village Savings and Loan Associations ('VSLAs') in Niger.

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Third, Stuart goes on to explain how, in the early 1980s, Bank Rakyat Indonesia successfully repurposed from a focus on lending to a focus on savings: in effect, providing a formal and accessible version of local informal 'money-guards'. Finally, the paper moves on to discuss the very famous case of the Grameen Bank in Bangladesh. As Stuart explains, the 'Grameen II' model later involved a clear switch to a savings approach—rather than the previous lending approach, in which loan officers had been encouraged to increase loan sizes (even beyond the point of viability).

Our second paper moves us to North America—with *Joyce Klein and Timothy Ogden* writing on 'Lessons for Global Microfinance from . . . the United States?' (Klein and Ogden, 2024). This paper draws upon a fascinating historical background: 'even many in the US do not know that Benjamin Franklin created and funded small enterprise microcredit programmes in Philadelphia and Boston in the late 1790s'. The question mark in the authors' title elegantly makes an important point: the American experience is often not considered to be particularly relevant for microfinance debates. But, as Joyce and Timothy explain, 'for every modern question, controversy or policy decision related to the future of microfinance there is an analog from the US's history or present'.

What follows in this paper is a fascinating overview of the development of different forms of 'small-dollar' lending in the United States. From these developments, the authors extract four key lessons for today's debates about microfinance. First, the authors argue that subsidies for microfinance provision cannot and should not be temporary. This relates closely to themes developed in a separate paper in this journal issue (by Jonathan Morduch and Timothy Ogden). Joyce and Timothy draw upon the example of loan-referral partnerships in the United States—in which 'name-brand' banks partner with non-profit lenders, and refer marginalized borrowers to the non-profit lender in cases where the borrower does not meet the criteria for the name-brand bank. Joyce and Timothy note that these kinds of referral scheme 'have yielded a very low volume of closed loans'. Second, the authors observe that, in microfinance, 'competition can increase costs'. In the US, responsible microcredit lenders often struggle to reach out to new clients, given the much larger advertising budgets of less responsible competitor lenders. Third, Joyce and Timothy argue that—notwithstanding its usefulness and its obvious appeal—the introduction of new technology involves serious limitations. In the US, this has been illustrated through (for example) the costs of maintaining multiple channels for customer service, threats to online banking security, and costs of technological upgrading. Finally, the work of consumer protection 'is never done': even with a long history of consumer protection and truth-in-lending regulation, the US continues to struggle with the problem of predatory lenders. Joyce and Timothy liken this to a game of 'whack-a-mole'—in which predatory lenders shift their focus in response to changes in regulations and regulatory strategy.

This insight connects directly to the third paper, by *Sam Mendelson and Daniel Rozas*—about the experience of microfinance crises (Mendelson and Rozas, 2024). This article explores several regulatory issues in microfinance, viewed through the prism of various crises that impacted the sector. In doing so, the paper highlights the transformative potential of these crises—often paving the way for substantial policy reforms. The paper dissects three significant crises: the Grameen Bank crisis in 1998 (notable for the development of 'Grameen II'), the Peruvian crisis of the late 1980s, and the 2010 crisis in Andhra Pradesh. The authors then turn to a description of the Sentinel Project—launched in early 2021, to understand from leaders of microfinance institutions how the sector was responding to the Covid crisis. The paper places key emphasis throughout on the important reforms that have been prompted by crises—including, in particular, a shift to savings, a shift to shareholder ownership of some microfinance institutions, regulatory reforms for consumer protection, and greater use of digital technologies.

We end Part I with a contribution by *Jonathan Morduch and Timothy Ogden*, entitled 'What Win–Win Lost: Rethinking Microfinance Subsidy in the Past and Designing for the Future' (Morduch and Ogden, 2024). The paper challenges the conventional 'win–win' narrative that has long pervaded the microfinance sector. This narrative suggested that microfinance could simultaneously achieve financial sustainability and substantial social impact without the need for subsidies. The authors critically reevaluate this perspective, focusing on the intricate relationship between interest rates, subsidies, and financial inclusion. They begin by discussing the historical significance of increased interest rates in microfinance's evolution. This step, they argue, was more impactful than other innovations like group lending, as it led to the establishment of new private-sector lending organizations that became the cornerstone of modern microfinance. These organizations, including NGOs and commercial banks, shared social goals with state-run banks but operated within a business framework. With this in mind, Jonathan and Timothy then revisit the debate on the elasticity of demand for microfinance with respect to the offered interest rate; the authors cite credible empirical evidence that customers are indeed sensitive to interest rates—high interest rates do discourage borrowers.

The authors then go on to analyse provision of subsidies to the microfinance sector—noting, as they do so, that the policy case in favour of higher interest rates rested traditionally on concerns about the financial viability of

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microfinance provision. To analyse subsidies, the authors summarize primarily the work of Cull *et al*. (2018)—who analyse the MIX Market database to measure the extent of subsidies to the sector across 930 institutions from 2005 to 2009. Cull *et al*. find that subsidies are substantial—a median subsidy of US$215 per borrower for commercial microfinance banks, and a median of US$51 for NGOs (with NGOs typically serving a much poorer client pool). Jonathan and Timothy consequently argue for a more nuanced discussion of the role of subsidy (including its benefits) and greater recognition of the potential for financial exclusion caused by high prices and the drive for profitability or 'sustainability'.

Part II: Taking microfinance to scale

Part I focused primarily on aggregate-level issues. Recent years have witnessed a surge in client-level studies of microfinance, providing nuanced measurements at the level of individual borrowers. To link these micro-level studies to the aggregate—and, in particular, to think about scale-up of microfinance interventions—it is necessary to add two things. First, we must think about the general equilibrium effects of microcredit. Second, it is critical to examine the heterogeneous effects of microcredit across various borrower demographics; the borrower populations studied in microfinance research may differ significantly from those targeted by large-scale policy implementations.

These are the two broad themes of the papers in this part. First, *Aanchal Bagga and Cynthia Kinnan* contribute on the general equilibrium effects of microcredit (Bagga and Kinnan, 2024). The paper emphasizes the importance of understanding the systemic impact of microfinance on various markets and social structures. This includes examining general equilibrium effects on labour markets (through wage adjustments), product markets (via price changes), credit markets (through interest rates), and social networks (through changes in social ties). The papers highlight that the likely impact of microcredit varies significantly based on the presence of frictions (whether, for example, frictions in labour markets, in financial markets, or behavioural frictions at the level of the borrower). Aanchal and Cynthia also emphasize the critical importance for general equilibrium effects of borrower heterogeneity—in particular, the authors emphasize the distinction between 'left-tail targeting' (where microlenders disproportionately serve less productive entrepreneurs) and 'right-tail targeting' (the opposite phenomenon: where microfinance is allocated more effectively than other sources of credit).

This insight links directly to the next paper in the issue, by *Ronald Cueva, Adam Osman and Jamin Speer*, on heterogeneity in microfinance—and, in particular, on the challenge of 'looking beyond average treatment effects' (Cueva *et al*., 2024). Heterogeneity is an important general theme that has been explored in several recent empirical papers in this space; the authors' key contribution here is to provide novel empirical analysis of previous studies, in microcredit, microsavings, and microinsurance. To do this, the authors apply the recent method of Buhl-Wiggers *et al*. (2022)—a method that bounds the variance of treatment effects (the lower bound estimate of the variance is obtained by comparing the distribution of treatment outcomes with control outcomes under a rank preservation; the upper bound is obtained by the same comparison, but under rank inversion).

Specifically, Ronald, Adam, and Jamin use data from four field experiments studying microfinance, one field experiment studying microsavings, and one studying microinsurance. Applying the Buhl-Wiggers *et al*. method, the authors find substantial heterogeneity across all studies (for example, they estimate that the standard deviation in treatment effects on the profit impact of microcredit can be an order of magnitude larger than the average treatment effect). From these results, the authors draw two key conclusions. First, even products that are not effective on average may well be transformational for some borrowers (and, indeed, may harm some others). Second, as a consequence, 'researchers and practitioners would benefit from spending more time figuring out how to better target the products we already have to those that benefit most from them'. In short, the authors urge a shift in focus from the traditional question of '*Does* microfinance work?' to a more nuanced question: '*For whom* does microfinance work, and for whom does it not work?'

Part III: Microfinance and digital credit

Digital payment options are rapidly becoming ubiquitous in many low-income markets—and this promises to have profound implications for many aspects of microfinance. In particular, new technologies allow online payments both to and from microfinance clients—and this raises a novel set of empirical questions and regulatory challenges. These are the themes of Part III—which focuses respectively on the regulatory environment for digital credit, the lender's perspective in using digital credit and linked credit information, and digital payment systems.

We begin with the evocatively titled 'Fast growth and slow policy' by *Rafe Mazer and Seth Garz*. The paper (Mazer and Garz, 2024) provides a policy case study about the Kenyan experience of digital credit. This is a fascinating time and place to study the role of digital credit: as the authors explain, Kenya saw a very rapid

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expansion of digital credit (following the introduction of M-Shwari in 2012), and this was accompanied by declines in clients' 'financial health'—with digital credit being the source of the highest rate of default. Rafe and Seth provide here a fascinating and sobering story, about the importance of regulatory scaffolding to support microcredit. In writing this paper, the authors conducted 24 interviews—with respondents from research and policy institutions, commercial providers, and various funders (both philanthropic and public). Among other lessons, the authors emphasize the importance of consumer protection and the challenge of the regulatory environment keeping pace with technological advances (including credit reference bureaus and competition policy).

This links very nicely to the next paper—which considers precisely the experience of an online digital lender in introducing credit reference bureaus (Burlando *et al*., 2024). In this paper, *Alfredo Burlando, Michael Kuhn, and Silvia Prina* provide novel empirical analysis using administrative data from a high-interest Mexican lender (whose implied APRs exceed 450 per cent in some cases). The authors have data on all approved loans from June 2018 to May 2019; from 1 November 2018, the lender began using credit histories (from a credit bureau) to assess all first-time loan applicants. Using a discontinuity design, Alfredo, Michael, and Silvia find that the incorporation of credit scores increases the repayment rate substantially (and significantly)—by about 8 percentage points (that is, an improvement of about 13 per cent).

The final paper in this part—by *Francis Annan, Chiman Cheung, and Xavier Giné*—considers digital payment systems (Annan *et al*., 2024). The paper opens by noting that most households in low-income countries do not use any form of digital payment—despite a very rapid overall growth in such payments over the past decade. The authors note that two recent quasi-experimental studies (one in India, the other in Brazil) show that digital payments are a substitute for traditional banking (whether in the form of cash or physical bank branches). However, they also urge caution in extrapolating these results: wealthier households will typically find it much easier to transition to digital payments. In doing so, Francis, Chiman, and Xavier highlight the ambiguity of the relationship between market structure and the use of digital payments; as the authors explain, there is an exciting recent body of research about demand for digital payments, but 'there is a dearth of evidence on the supply side'. Further, the authors call for innovative data collection, so that analysis can go beyond standard surveys and administrative data. (In particular, the authors highlight the scope for machine-learning analysis of social media, as a way of highlighting important aspects of the user experience.) As the authors explain, there is broad scope for taking digital payments beyond standard 'person-to-person' transactions—in particular, expanding to 'person-to-business' and 'person-to-government' transactions.

Part IV: Microfinance and repayment flexibility

Finally, in Part IV, the journal issue considers microfinance and repayment flexibility. There are several key respects in which microfinance contracts can incorporate such flexibility. First, microfinance institutions might allow clients options to delay payments; this might be useful for accumulating lump sums, or for responding to unanticipated shocks. One important response to an unanticipated shock is for a microfinance institution to provide debt relief; in extreme cases, this involves forgiving a debt entirely. These kinds of repayment flexibility typically depend upon contractual options exercised by clients (as in the case of repayment holidays, for example), or the waiving of contractual terms by lenders (as in some cases of debt relief). A further class of contracts provides for *ex ante* repayment flexibility through performance-contingent obligations: where the client's repayments depend upon some measure of the client's business performance. Such performance-contingent contracts seem particularly feasible in the context of ongoing value-chain relationships. These are the themes developed in Part IV.

Giorgia Barboni opens this part, with a discussion of recent key innovations in microfinance repayment structures (Barboni, 2024). As Giorgia notes, there is an important tension here. On the one hand, the rigid structure of traditional microcredit contracts serves an important purpose as a commitment device for many clients; on the other hand, this rigidity may have limited borrowers' ability to make significant lump-sum investments and manage cash flow volatility. Giorgia then reviews recent literature on grace periods and repayment flexibility in microfinance; she notes that most studies in this space find improvements in business outcomes as a consequence of contractual flexibility, while question marks remain as to the impact of flexibility on lender default rates. Finally, Giorgia argues that new Fintech players seem more willing than established institutions to innovate with repayment flexibility; for this reason, we may see a greater embrace of flexible repayment structures in future.

One key form of flexibility is debt relief; this is the topic of the next paper, by *Sasha Indarte and Martin Kanz* (Indarte and Kanz, 2024). Debt relief (and, more generally, lender responses to non-repayment) is a critical aspect of microfinance. The authors draw two important distinctions. The first is between rules-based debt relief (in particular, through formal bankruptcy proceedings, common in high-income countries) and *ad hoc* relief programmes, more common in low-income settings (whether initiated by government, regulators, or lenders). The second is

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between debt relief involving transfers from creditors to borrowers, and debt relief involving transfers from taxpayers to creditors and borrowers (that is, subsidized debt forgiveness).

Central to this analysis is the role of borrower beliefs. In their paper, Sasha and Martin report novel survey evidence—in which they elicit first-order and second-order beliefs about the impacts of debt relief on future repayment, on borrowing, and on future relief. Specifically, the authors survey about 1,600 borrowers (half of them microfinance borrowers and half agricultural loan borrowers); each of these borrowers had benefited either from debt forbearance, from debt forgiveness, or neither. A clear majority of borrowers believe that debt relief improves loan repayment (whether respondents' own repayment behaviour, or that of the average borrower). Against that, a majority also believe that being granted debt relief makes future debt relief more likely.

One novel opportunity for repayment flexibility arises in the context of ongoing trading relationships. *Lorenzo Casaburi and Jack Willis* think about 'value-chain microfinance': provision of financial services (whether to small firms, workers, or consumers) as part of existing value-chain relationships (Casaburi and Willis, 2024). This could include, in particular, supply-chain credit, trade credit, retail credit, or wage advances. Indeed, the authors describe the paper as sitting at the intersection of literature on value chains, on microfinance, and on interlinking of contracts in developing countries. The authors begin with an important juxtaposition: on the one hand, there is a clear need for improved financing in value chains (particularly given time lags between production and sale); on the other hand, value chain relationships provide for better information and better enforcement than would otherwise be available.

The particular contribution of this paper is to think about value-chain financing in a *micro*finance setting. As the authors point out, the very idea of microfinance stems from the ability to draw upon existing trust networks—for example, networks formalized through microfinance groups—to reduce transaction costs. However, such transaction costs remain large in the case of microfinance—and this is a very useful paper for thinking about how value-chain microfinance may help to further reduce both informational costs and enforcement costs. The authors go on to discuss the relevance of behavioural biases for value chain microfinance; for example, by having repayments deducted directly from wages or business revenues. There are clear potential advantages to linking of microfinance with value-chain relationships; Lorenzo and Jack also rightly warn of the potential risks involved with power imbalances that might be exacerbated in a value-chain financing relationship.

We (*Muhammad Meki and Simon Quinn*) contribute the final paper of the issue, on the theme of microequity (Meki and Quinn, 2024). In principle, microequity should be attractive and beneficial for many microfinance clients, because of the way that it bundles implicit insurance with the lending contract. Indeed, this theme was noted in several of the other papers on flexibility; Lorenzo and Jack, for example, note that value-chain financing can 'substantially alter the risk exposure of one or both agents', while Sasha and Martin explain that debt relief amounts to a bundled '*de facto* form of insurance'.

In our paper, we begin by urging a broad interpretation of the concept of microequity: we argue that the concept should extend to any form of microfinance in which the repayments owed in each instalment depend positively upon enterprise performance. For example, this would include cases where a capital investment is repaid by revenue-sharing—so that, in months in which a microenterprise enjoys increased sales, it owes larger repayments. In particular, we argue that the concept of microequity should not be limited to settings in which a financier can take a formal equity share in business. We urge this broader definition both for principled and pragmatic reasons. We review literature from corporate finance; this literature has explored reasons to prefer debt-based financing, and has also emphasized the implicit-insurance advantages to equity-based contracts. In turn, this resonates with a long literature in development economics—which, in various ways, has considered the role of credit contracts in providing implicit insurance. We sketch a stylized theoretical model—inspired by traditional theoretical models on sharecropping—to think about some of the key tensions in developing microequity contracts. We are optimistic about some early empirical results in this space—which indicate the potential for substantial gains through various forms of performance-contingent microfinance (in particular, our co-authored work in Cordaro *et al*. (2023)). We conclude by emphasizing the particular appeal of microequity for large numbers of unbanked Muslim poor—for whom traditional debt products are often unsuitable.

Discussion

This issue of the *Oxford Review of Economic Policy* navigates the diverse and evolving landscape of microfinance, offering critical insights for policy-makers. It highlights the persistent challenges in establishing the right business model to supply a diverse set of financial services to the hundreds of mullions of unbanked individuals in low- and middle-income countries who face a variety of complex and increasing risks.

These insights draw from current case studies, from past debt crises, and even from high-income countries. They also draw from a variety of methodological approaches. These include detailed ethnographic studies—which shed

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light on the daily realities of poor households and businesses—as well as interviews with microfinance business leaders and regulators. They include comprehensive quantitative research encompassing both experimental and observational studies. Included in this are micro-level analyses, novel approaches to quantifying heterogeneity, and broader approaches to measuring general equilibrium effects of microfinance.

A key highlight of this issue is its exploration of the rapidly evolving digital transformation in low- and middle-income countries—a topic garnering considerable interest among academics, practitioners, and policy-makers. This transformation is marked by the potential integration of novel data sources, such as credit registries, mobile money, and payment technologies, which hold promise for deepening financial inclusion. However, these advancements also bring considerable challenges for policy-makers, who must strike a delicate balance between fostering innovation and ensuring data security, while also being vigilant about potential over-indebtedness.

Furthermore, the issue takes an in-depth look at microfinance contracts and the significance of contextually tailored microfinance models. These models are informed by a deep understanding of specific circumstances and are further enhanced by recent advancements in financial technology. The discussions include considerations of innovative contractual arrangements better aligned with the investment needs and behavioural preferences of borrowers, especially within specific business scenarios like value-chain arrangements. The issue also urges thinking thoughtfully about both *ex ante* as well as *ex post* flexibility, particularly in scenarios where borrowers face difficulties in repayment. This aspect has been especially pertinent in light of the recent Covid-19 pandemic, which led to a significant policy response in terms of debt moratoriums. Client protection has been touched upon in several papers, from data privacy and protection, to potential over-indebtedness, to ensuring fairness and preventing abuse in trading relationships.

We hope that this issue of the *Oxford Review of Economic Policy* enriches our understanding of microfinance and serves as a valuable guide for policy-makers. It underscores the need for thoughtful, context-sensitive approaches in designing and regulating microfinance—aiming to fully harness its potential for financial inclusion and as a tool for economic empowerment.

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