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Recent Advances in Lending to the Poor with Asymmetric Information

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We would like to thank the anonymous referees and the editor for insightful comments that helped improve the paper. All the remaining errors are ours.

Notes

1. Nonetheless, Karlan and Zinman ([2008](#)) show that rate sensitivity increases at higher rates, for example the levels of loan take-up were up to six times greater for interest rate levels higher than the lender's standard rate.
2. Many issues of the microfinance industry are discussed at an introductory level by Armendáriz and Morduch ([2005](#)), which to our knowledge is the only textbook on microfinance to date.
3. Hermes and Lensink ([2007](#)) provide a survey of empirical evidence. Their paper can be seen as complementary to our work that focuses on the underlying theoretical developments.
4. Given $Y^L > \rho$ and the zero-profit condition, the safe types always repay, so they would be charged $r_s = \rho$. The risky types allow the MFI to break even if $r_r = [\rho + (1-q)v]/p_r$.
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10. In Chowdhury (2005) in case of successful repayment by both borrowers the group's total payoff is shared by the two borrowers. One gets share α and the other gets $1-\alpha$. Our presentation corresponds to $\alpha = 1/(1+\rho)$. In any case, results of Chowdhury (2005) are robust with respect to α .
11. Notice that our review has a different focus to that of Hermes and Lensink (2007).
12. Consider, for example, a group of two, where each member shirks thinking that the other one will repay. In this case, the chances of group default rise.
13. Theoretical models accept that group members do not share the same monitoring ability as in Bond and Rai (2008). Weaker borrowers have a higher willingness to repay, since they are threatened with tougher sanctions ex post. Even when both borrower types have viable investment opportunities, co-signed loans are preferred to group loans if the power relation within the group is sufficiently unequal.
14. Research into pro-social mission versus preference for financial sustainability of MFIs has led to new literature on potential mission drift. Much of this literature is empirical and does not directly relate to microlending contracts, therefore, covering it extensively is beyond our scope. Nonetheless, it has governance implications for MFIs and we discuss it briefly at the end of the paper.

15. See Murguía et al. (2010) for a discussion of the impact of the 2008 financial crisis on the microfinance sector in Latin America. The paper also discusses the impact of the crisis on the government's role in the sector.
16. Karlan and Zinman (2009) find that the impact of the crisis on the microfinance sector is heterogeneous across countries and institutions. The paper also discusses the impact of the crisis on the socio-economic conditions of the borrowers.



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