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Discussion Paper BRIEFS

Food Consumption and Nutrition Division of the International Food Policy Research Institute

Discussion Paper 114

Distribution, Growth, and Performance of Microfinance Institutions in Africa, Asia, and Latin America

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How many microfinance institutions (MFIs) are there in the developing world? Where are they located? How many households do they reach? How well do they do in terms of repayment and outreach, and how do these performance criteria differ by poverty level of the target group, type of institution, and by geographic location? This paper seeks to address these and other questions, based on an inventory of MFIs generated from a postal survey of MFIs and MFI networks. Looking for commonalities in their development and performance, the answers to these questions are still not fully known.

Overview

In 1999, the International Food Policy Research Institute (IFPRI) team on microfinance conducted a survey of microfinance institutions (MFIs) in Asia, Africa, and Latin America. This study builds on that work and gives a detailed analysis of the distribution, growth, and performance of MFIs supported by donor organizations. Questions related to poverty outreach and indicators of financial sustainability are analyzed for all the institutions of the sample by type of institution, lending technology and legal status, and by geographic location. While the quality and depth of the survey data appear to be by far lower than the data on about 100 selected MFIs in the *MicroBanking Bulletin* (published by the Calmeadow Foundation), the results give some additional information and benchmarks for the purpose of making analytical comparisons for the MFI sector in the developing world as a whole. It builds on previous assessments that sought to provide information about the number and size of MFIs in the developing world (see, for example, Sustainable Banking with the Poor 1999).

What Information Was Collected

International nongovernmental organizations (NGOs) and networks were asked to send information concerning their activities in the field of microfinance: countries where they work; by country and the

institutional type of MFIs promoted (e.g., solidarity groups, village banks, cooperatives, etc.) with a definition of each type of structure; area targeted (rural, urban, mixed); number of staff; number of clients (members, borrowers, savers); volume of savings and outstanding loans; average size of the loans; repayment rate; donors; and complementary services provided. More than half responded, and information from those that did not respond was sometimes obtained through other means, such as case studies or publications. This information was compiled into a database for analysis.

Summary and Conclusions

The sample MFIs in Asia, Africa, and Latin America have adopted a wide range of services to overcome various constraints.

On the whole, MFIs in the sample reach 54 million clients, with \$18 billion in outstanding loans and \$13 billion in savings deposits. With these figures, the Micro-Credit Summit objective to reach 100 million poor people by 2005 appears to be achievable if one were to assume that most of the current MFI clients were "poor." However, MFIs are highly concentrated in size (3 percent of the largest MFIs in the sample reach 80 percent of the members, with the unit desa system of the Bankya Rakyat Indonesia and some of the NGO and rural banks in Bangladesh accounting for a large share of clients served). If the stakeholders of the Micro-Credit Summit wish to achieve their goal, further client growth, in particular among the bigger

MFIs, would be necessary. This is because the many small MFIs will not contribute much to the total numbers even if they would double or triple their client numbers by

2005. However, it will be necessary to support the change of scale of small but efficient MFIs in other countries, too.

In terms of lending technologies, cooperatives are responsible for the largest proportion of the credit volume and savings transactions, while solidarity groups have a very active policy in terms of number of

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borrowers. The village bank and linkage models, thanks to the delegation of supervision to local voluntary staff, record higher staff productivity and achieve better depth of outreach than other MFIs.

In terms of regulation and legal status, more than 95 percent of the volume of microfinance transactions goes through regulated institutions (bank or cooperative). Although 60 percent of MFIs in the sample are unregulated, they only account for less than 2 percent of the volume of savings mobilized and loans disbursed.

By continent, Asia accounts for the largest volume of savings and loans. It employs the largest number of MFI staff, but has lower personnel costs than Africa and Latin America. Lower wage rates allow *ceteris paribus* for closer monitoring and supervision of financial services. Staff productivity in Africa is low as the continent still faces the constraints of poor infrastructure, undiversified economies, and high production and consumption risks leading to high transaction costs, as well as poverty and illiteracy among potential clients. All of this limits transaction volume per staff member. Moreover, loan sizes are comparably high when expressed as a percentage of per capita GNP. Thus, increasing the size of the loan transactions would endanger the depth of outreach. Rural Africa still has a relatively low number of clients reached, which calls for continued efforts to improve rural and agricultural finance. Latin America is extensively covered by MFIs and records the largest volume per transaction. However, as is the case with Africa, rural outreach remains low there as well. The relatively high outreach in rural areas of Asian countries is possibly due to the fact that the MFIs face low transaction costs in irrigated or fertile areas that are densely populated.

As MFIs require stable macroeconomic and political environments for financial sustainability, few of the MFIs in the sample are from politically unstable countries. On the other hand, high concentration of MFIs can be noticed for South and Southeast Asia, Latin America, and East and West Africa. These areas seem to receive most of the international support and account for the majority of the clients and the volumes involved in microfinance.

The data in this paper give a number of trends in past growth of MFIs, by region and by type of institution. It also informs about the approximate overall size of the MFI sector in the developing world and seeks to analyze some principal relationships between performance indicators and underlying determinants. More in-depth analysis with less aggregated, but more detailed, data on MFIs is required to better understand the relationships between financial sustainability and depth and breadth of poverty outreach, differentiated by institutional type and socioeconomic context.

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