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for FOOD SECURITY of the POOR

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Worldwide Distribution and Performance of Microfinance Institutions

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RESEARCH PROGRAM MISSION

The research program titled Rural Financial Policies for Food Security of the Poor seeks to identify policies and institutional arrangements that help the poor integrate themselves into sustainable savings and credit systems in order to increase capacity to invest, bear risk, and preserve livelihoods.

FOCUS COUNTRIES

- Bangladesh
- Cameroon
- China
- Egypt
- Ghana
- Madagascar
- Malawi
- Nepal
- Pakistan

ABOUT THE AUTHOR

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How many microfinance institutions (MFIs) exist in the developing world? How well are they performing? What is their role in household economies? Are they using their funds efficiently? In 1999, the International Food Policy Research Institute (IFPRI) conducted a survey on MFIs in Asia, Africa, and Latin America to offer a new in-depth analysis of the distribution and performances of MFIs at the international level. This brief summarizes the results of the survey.

Nature of the IFPRI Survey

IFPRI systematically sampled data on MFIs obtained through international nongovernmental organizations and other networks supporting these institutions. The survey adopted an average loan size of US$1,000 as the ceiling in defining MFIs. Information from the survey was complemented by a review of publications and technical manuals on microfinance. Geographically, the information concerns Africa, Asia, and Latin America, but the richest countries in Asia (those with per capita gross domestic products (GDPs) exceeding US$5,000) have been excluded. All of the selected MFIs receive some form of inter-national support, either through funding, technical assistance, or information dissemination. This mode of sampling underestimates local initiatives and national programs, but it does offer an overview of the role of the donors in the development of the MFIs. Data are all self-reported; however, as the information comes from supporting institutions, it is expected that this data have undergone some minimal amount of scrutiny and checking.

Table 1 summarizes the information computed from the database obtained.

Table 1. Overview of the volume of activities of MFIs in the developing world, 1999

Measure	Total
Countries	85
MFIs recorded in the sample	1,478
MFIs with data	1,366
Local branches established	45,958
Staff	175,067
Borrowers	23,542,955
Savers	43,929,072
Members	54,050,639
Savings	US$12,269,966,267
Outstanding loans	US$17,452,192,521

Source: IFPRI surveys on worldwide MFIs, 1999.

Global Overview of the Distribution of MFIs

This database of MFIs from 85 developing countries shows 1,478 institutions (688 in Indonesia and 790 in other countries) supported by international organizations. They reach 54 million members, 44 million savers (voluntary and compulsory savings), and around 23 million borrowers. The total volume of outstanding loans is US$18 billion. The total savings volume is US$12 billion, or 68 percent of the volume of the outstanding loans. MFIs have developed around 46,000 branches and employ around 175,000 persons.

A range of microfinance models is in use. Latin America and East Asia are particularly well served. Among the large countries with no MFI or low outreach (less than 0.1 percent of the population) are those affected by internal conflicts, such as Algeria, Somalia, Angola, or Afghanistan; or countries receiving low international support for political reasons, such as Cuba, North Korea, or Iraq. Data are indicative that a minimum of political and economic stability is required for MFIs to develop.

Lending Technologies and Legal Status of MFIs

MFIs are diverse in terms of technology and legal status and, as observed in previous surveys, are highly concentrated in size. MFIs have been classified into five major types according to the main technology they use to provide financial services: cooperatives, solidarity groups, village banks, individual contracts, and linkage banking. Cooperatives are responsible for the largest proportion of the credit volume and savings transactions, while solidarity groups score high in terms of number of 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 flows through regulated institutions. Banks, which are subject to prudential laws, record the highest repayment rates and staff productivity. Nongovernmental organizations cater to a specific clientele and record good repayment and depth of outreach, but low staff productivity.

MFIs by Continent

Asia is tops in terms of volume of MFI activities, with 70 percent of the institutions, 77 percent of the members, 55 percent of the savings volume, and 65 percent of the loan volume. However, when Indonesia is excluded, Africa compares well in terms of number of MFIs (45 percent). The number of MFIs and the number of their clients remain more modest in Latin America compared with Asia. However, MFIs mobilize an impressive amount of savings and distribute a significant amount of loans in Latin America. The largest loan transactions take place in Latin America (US$418) and the smallest in Asia (US$153), but in terms of percentage of per capita GDP, Africa has the largest transactions (82 percent of GDP compared with 33 percent and 35 percent for Latin America and Asia, respectively). In fact, the large volume of loans as a percentage of per capita GDP in Africa could be partly due to the predominance of cooperatives, which reach a wealthier population. In Asia, solidarity groups dominate, while village banks are largely represented in Latin America.

In terms of performance, African MFIs have the lowest repayment rates. Asia, on the other hand, benefits from good repayment rates. However, Asian productivity is quite low, both in terms of number of clients and volume transactions per staff compared with both Africa and Latin America. Surprisingly, staff productivity in terms of number of clients is the same in Latin America as in Africa, where problems arising out of inadequate infrastructure and low population density are more severe. However, employees in Latin America have loan portfolios three times larger than their African counterparts. Greatest women focus is recorded in Latin America, where 54 percent of MFI members are women, whereas African and Asian MFIs have less than 50 percent women as members.

The IFPRI database on MFIs underlines the presence of a multitude of MFIs that, except in unstable countries, are widespread, with no regions completely by-passed. They offer small financial services to 54 million households and savings mobilization plays a major role. MFIs are diverse in terms of lending technologies and legal status. But scope for better outreach exists, and each type of institution could be strengthened by increasing its size and productivity. ■

Selected Reference

Lapenu, C., M. Zeller, and M. Sharma. 2000. Multicountry synthesis report on Institutional Analysis. Report prepared for the German Federal Ministry for Economic Cooperation and Development. International Food Policy Research Institute, Washington, D.C.

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