

EUROPEAN
MICROFINANCE WEEK 2013

THE FUTURE OF MICROFINANCE:
INVESTING IN INCLUSIVE GROWTH



Credit: how much is too much?

Introducing MIMOSA (Microfinance Index for
Market Outreach and Saturation)

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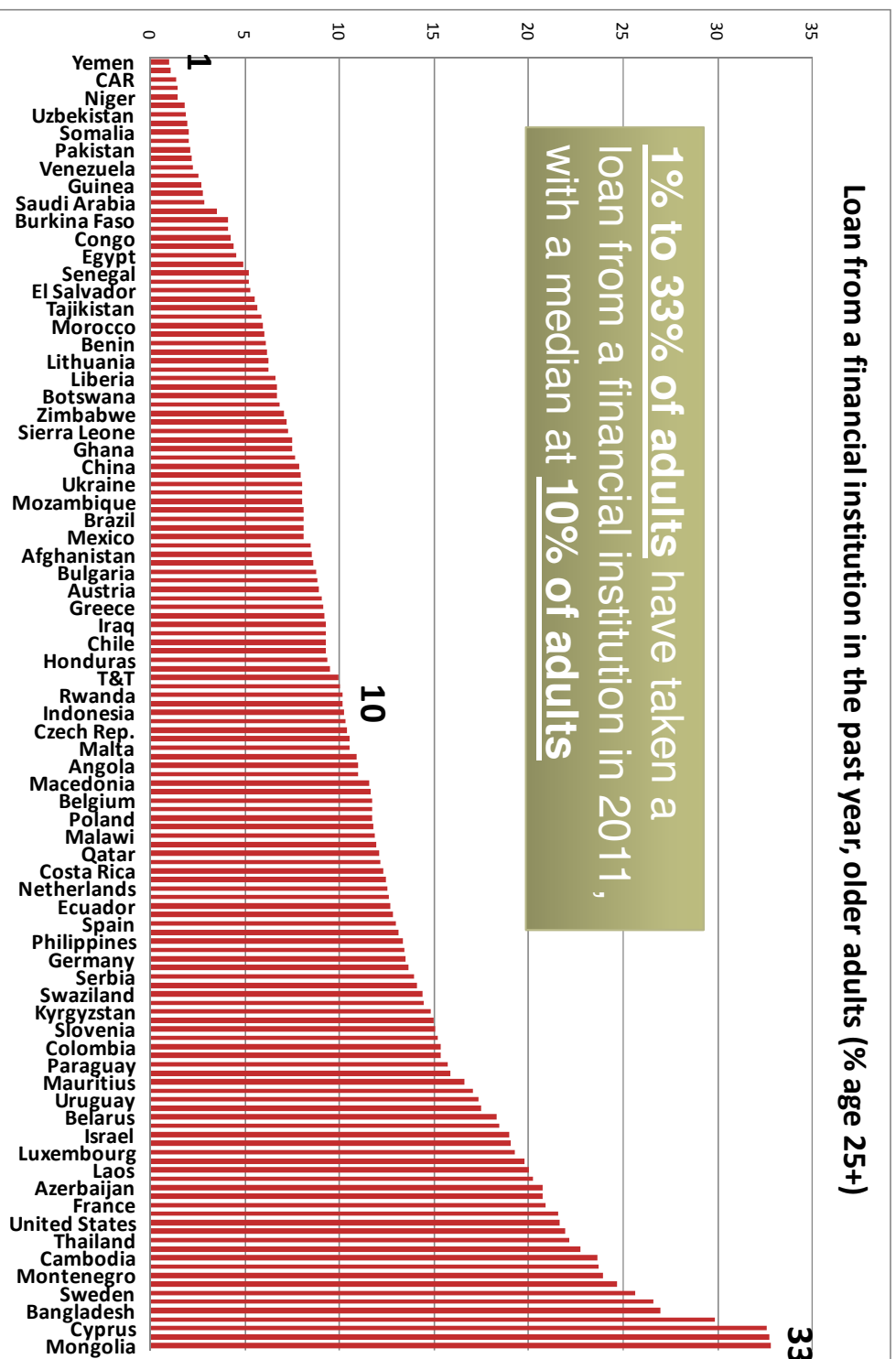
Credit: how much is too much?

- Knowing what is the upper limit of sustainable credit supply is critical for microfinance practitioners.
- Several approaches to the estimation of market capacity already exist, that usually rely on either intensive client data collection or a myriad of indicators that are not available for all countries
- **MIMOSA** offers a new approach to the estimation of credit market capacity based on the **Global Index Database**: a 148-country dataset about use of financial services, based on population surveys

Credit: how much is too much?

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Credit: how much is too much?

- **1 to 33% of adults:** that is quite a range..
- But highly **correlated** to:
 - **HDI** level of the country,
 - Level of use of **formal savings**,
 - Level of use of **semi-formal borrowing** (from employers, stores, money lenders, etc.).
- For each country, our model **predicts** the level of credit demand based on these 3 factors and compares it to the **actual use of credit**
- We then define an **outreach and saturation score**

Credit: how much is too much?

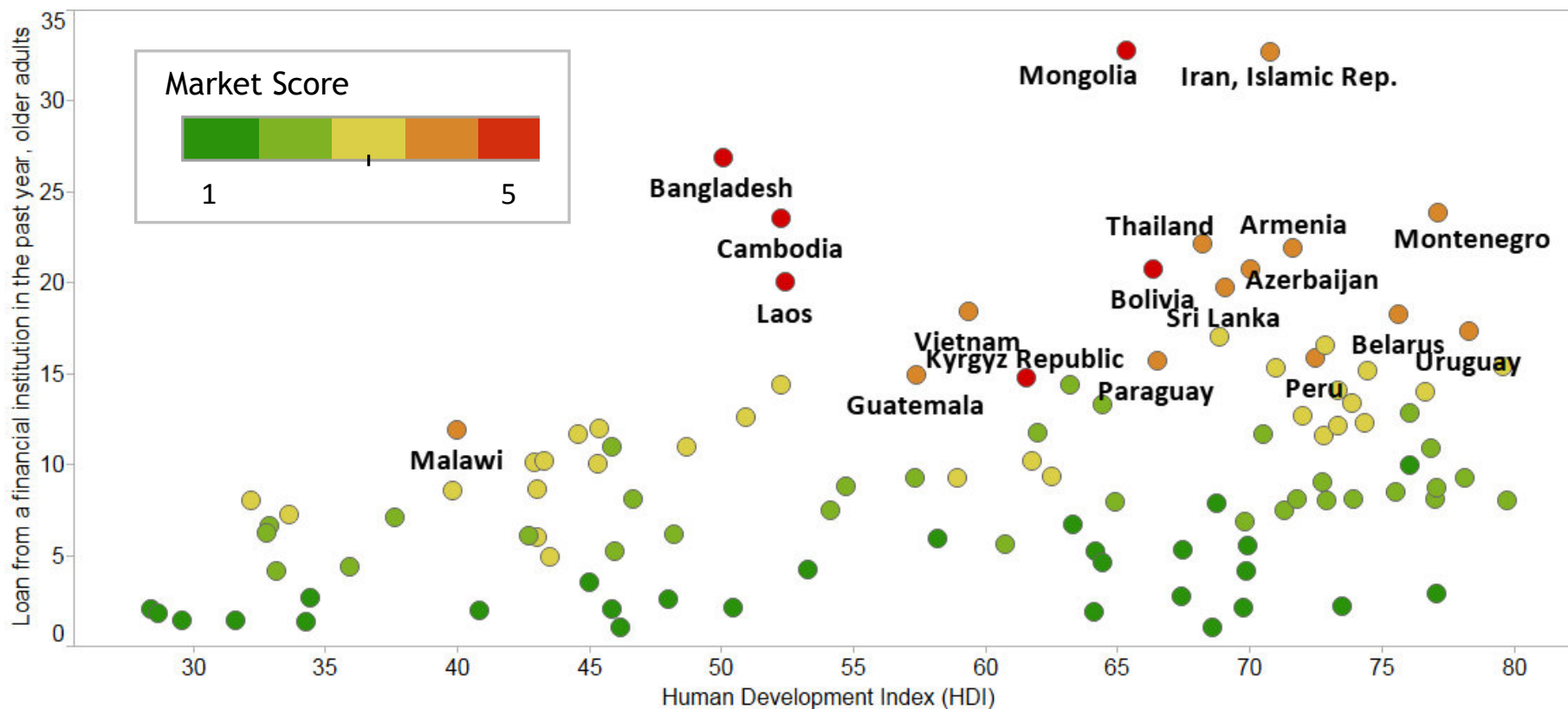
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MIMOSA Score	Market Penetration	Number (share) of countries (HDI<80)	Suggested actions/ Focus
5	>100% above predicted level	6 (6%)	<ul style="list-style-type: none"> Focus on preventing over-indebtedness Insure that external financial inflows don't push markets over the edge.
4	50-100% above predicted level	14 (13%)	<ul style="list-style-type: none"> Focus on service quality Customer service and higher outreach in under-serviced areas
3	0-50% above predicted level	29 (27%)	
2	0-30% below the predicted level	32 (29%)	<ul style="list-style-type: none"> Build out market support & infrastructure Invest in new/growing MFIs Focus on operational quality and growth
1	>30% below predicted level	28 (26%)	

Credit: how much is too much?

Usual suspects found in category 4 and 5

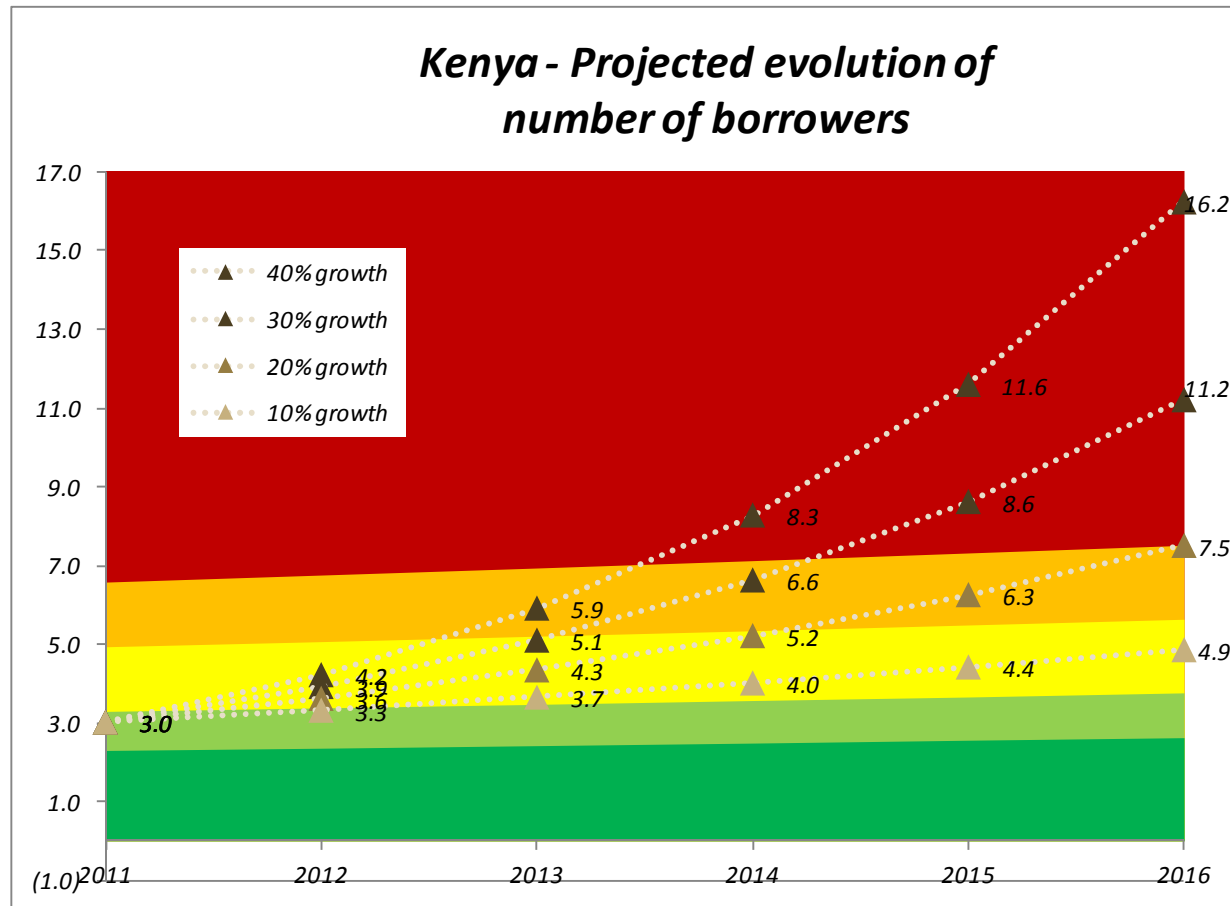




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Using MIMOSA to analyze MFI strategy



Using MIMOSA to analyze MIV portfolio

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- Overall, countries scored 4 or 5 receive more 36% of the MIV microfinance portfolio

Country	MIMOSA Score	% of MIV portfolio*	Portfolio (mUSD)*
Peru	4	10%	632
Cambodia	5	6%	397
Azerbaijan	4	5%	316
Bolivia	5	4%	217
Mongolia	5	3%	186
Kyrgyzstan	5	2%	149
Paraguay	4	2%	143
Armenia	4	2%	136
Sri Lanka	4	1%	74
TOTAL portfolio in countries scored 4 and 5		36%	2,251

- On a sample of 17 MIVs, 3 have more than 50% of their portfolio in countries scored 4 or 5

Using MIMOSA to analyze MIV portfolio

MIV Name		% of Portfolio in countries with MIMOSA score (4+5)
MIV9		60%
MIV7		50%
MIV5		50%
MIV4		47%
MIV1		45%
MIV13		43%
MIV14		43%
MIV15		40%
MIV12		38%
MIV10		38%
MIV16		35%
MIV8		33%
MIV3		32%
MIV2		30%
MIV11		24%
MIV6		0%
MIV17		0%
Total MIV portfolio*		>36%



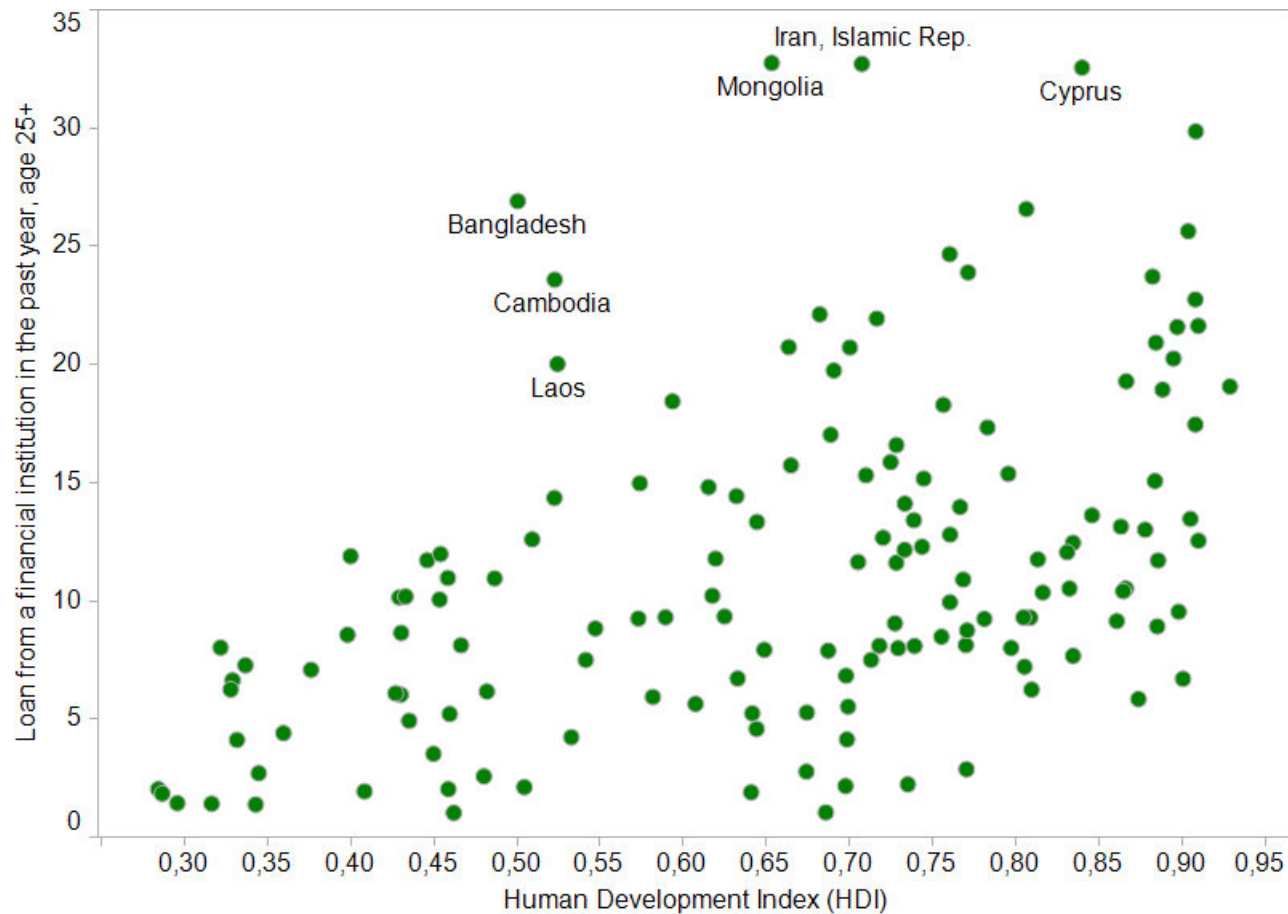
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Thank you!

Use of formal credit is strongly correlated to HDI



Factors used in the model

HDI

- Captures **economic strength** (GNI per capita), **life expectancy** and **education** levels
- Reflects the overall level of economic development, **how well is it distributed**, as well as quality of **governance**

Formal savings

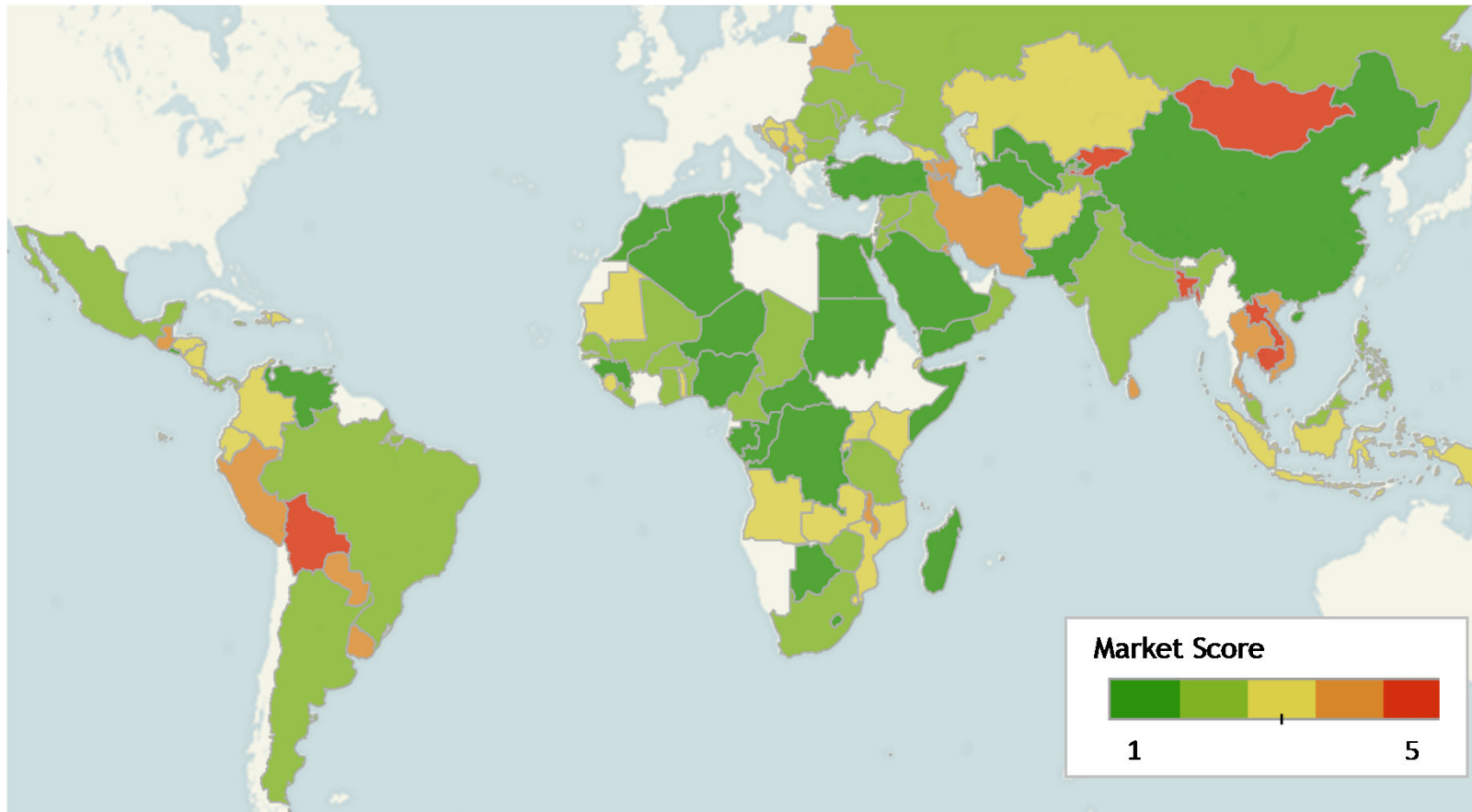
- **Savers make better borrowers** in the eye of financial institutions
- High formal savings rates also reflect **more developed financial institutions**, that savers are ready to **trust**

Semi-formal borrowing

- Good proxy for **intrinsic credit demand**
- Semi-formal borrowing does not seem to be replaced by formal borrowing: more of one implies more of the other
- Semi-formal credit evolves independently of government policy

How much credit is too much?

Latin America and South East Asia with the largest number of countries
in categories 4 and 5



Using MIMOSA to analyze MFI strategy

