



EUROPEAN  
MICROFINANCE WEEK 2013

THE FUTURE OF MICROFINANCE:  
INVESTING IN INCLUSIVE GROWTH

# Making Microfinance Investment Responsible

Client protection and financial  
performance, win win or trade-off?



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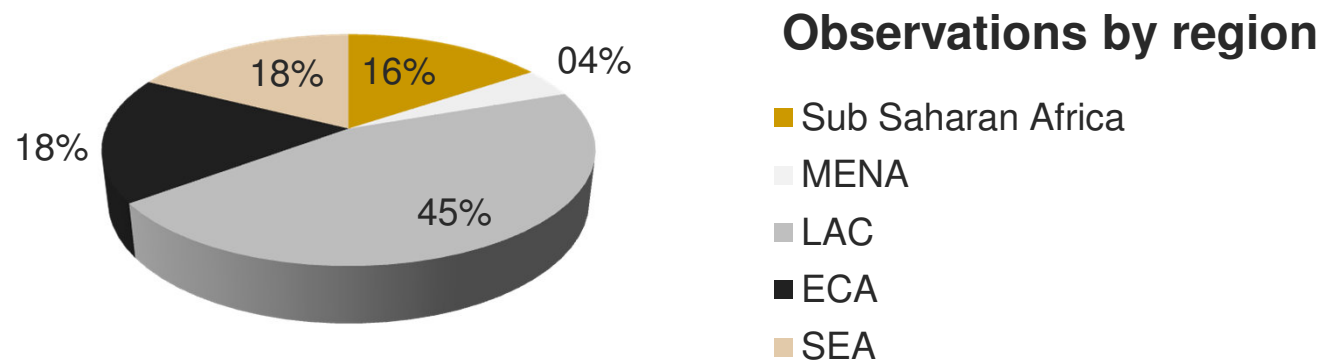


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PLATFORM  
NETWORKING WITH THE SOUTH



## Research framework

- Financial performance & client protection
- 2,904 MFI-year observations between 2004 and 2011 from 95 countries



- Methodology: multivariate regression OLS

## Key Variables



### To be explained:

- Y ROE
- Y ROA
- Y Operating Expense Ratio
- Y PAR<sub>30</sub>

### To explain:

- X Over-Indebtedness
- X Transparency
- X Collection practice
- X Ethical Behaviour
- X Privacy
- X Complaints

### To Control:

- Δ Country, region
- Δ Age
- Δ Size
- Δ Year of assessment
- Δ Database provider
- Δ Profit focus
- Δ Charter type
- Δ Lending methodology etc



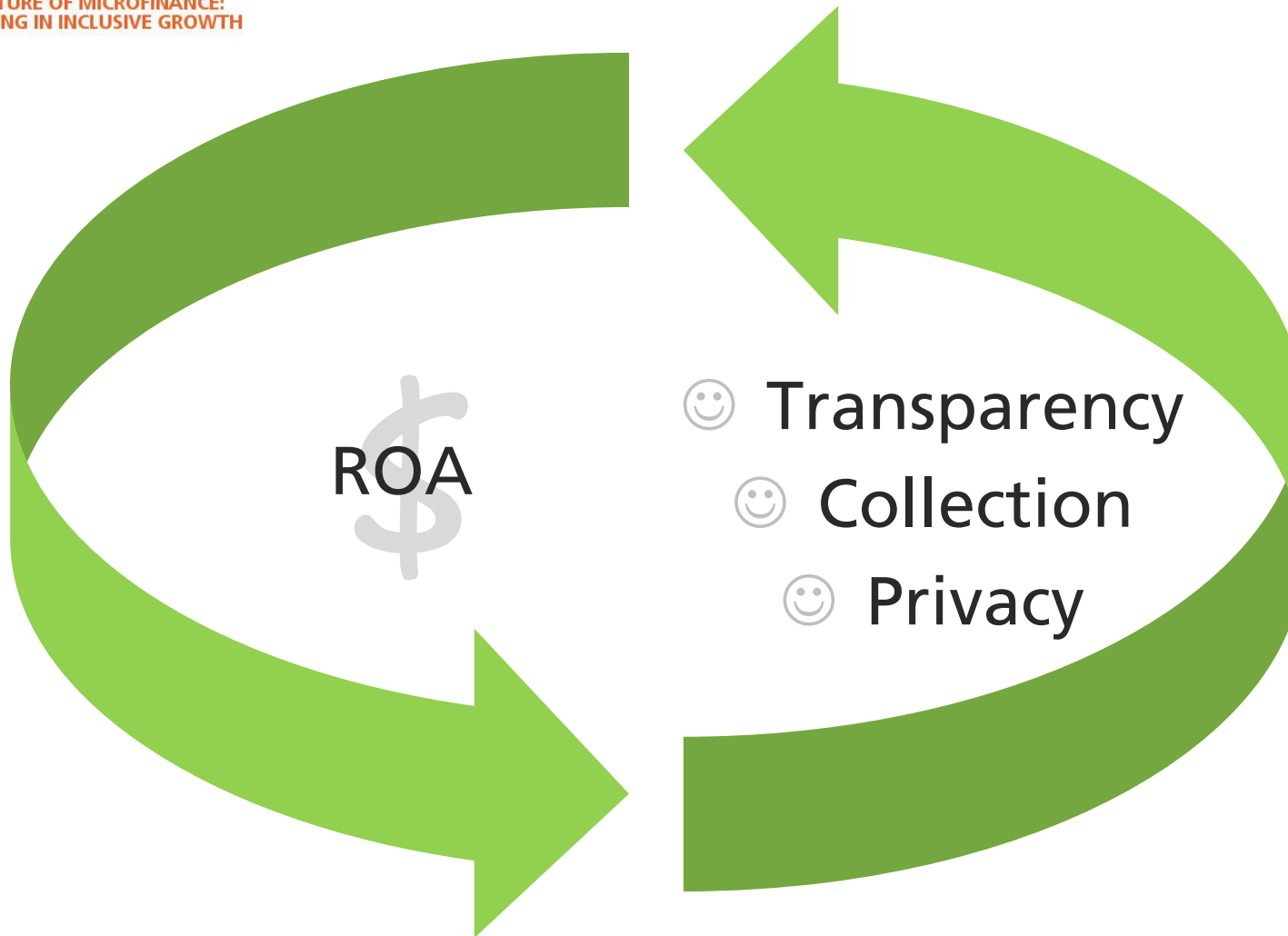
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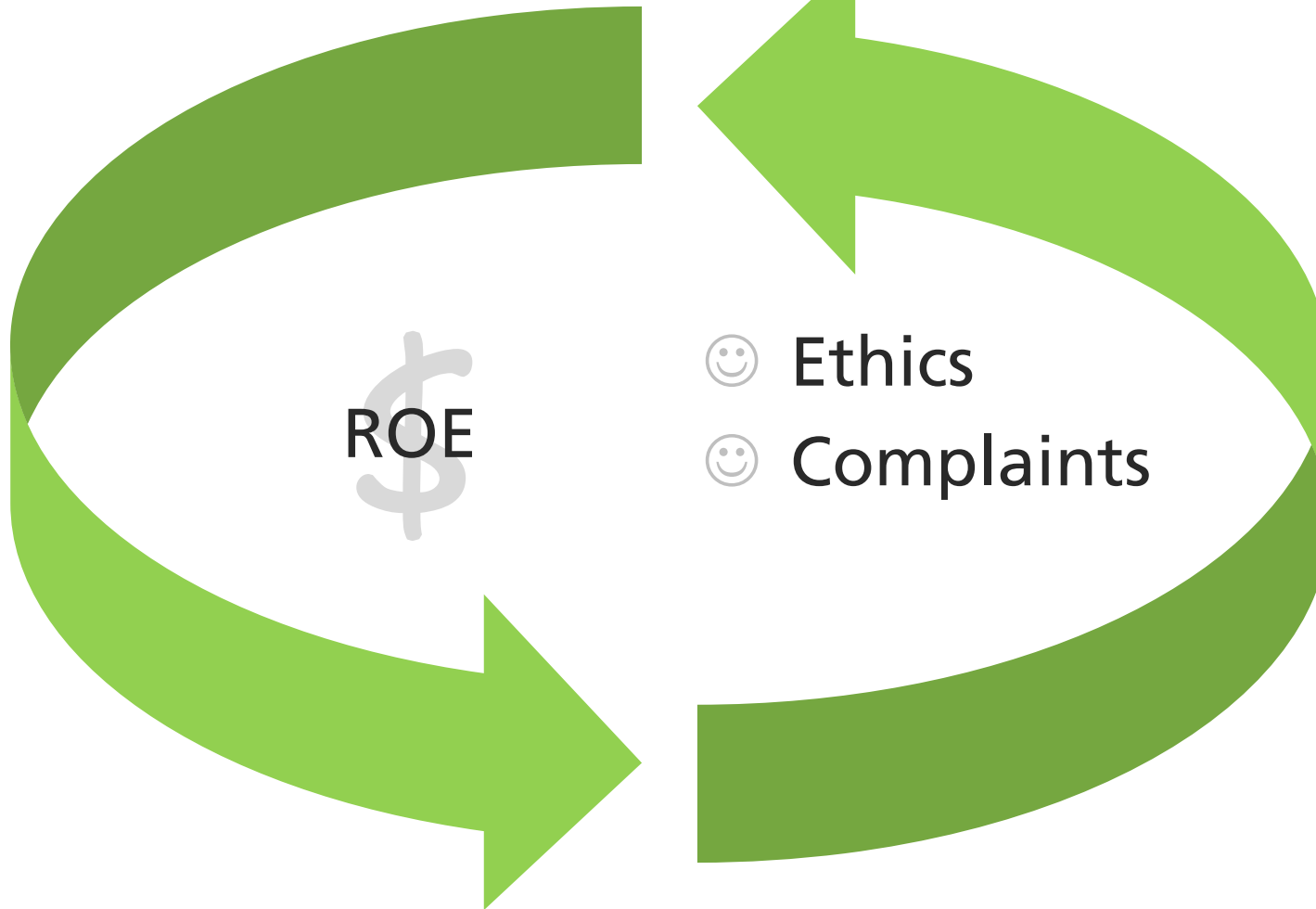
## Results



## Profitability 1



## Profitability 2





Efficiency

☺ Complaint

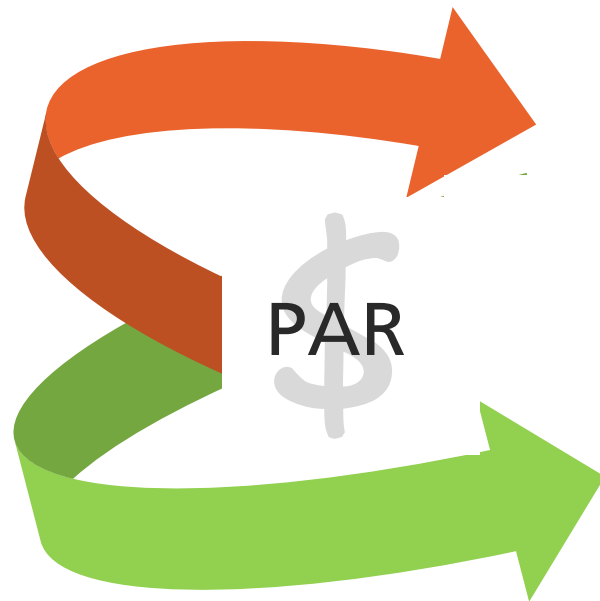


☺ Over-indebtedness



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## Portfolio quality

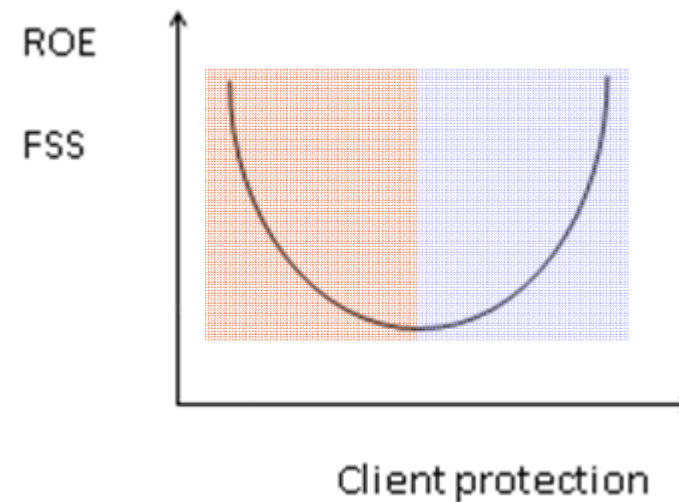
😊 Collection



😊 Transparency

## Conclusion

1. Business case: client protection & profitability
2. Virtuous circles
3. Mixed results to study



St Andrews University - MicroFinanza Rating, 2012



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# Methodology

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### To Control:

- Δ Country, region
- Δ Age
- Δ Size
- Δ Year of assessment
- Δ Database provider
- Δ Profit focus
- Δ Charter type
- Δ Lending methodology
- Δ # borrowers
- Δ % female borrowers
- Δ # savers
- Δ Client drop-out ratio
- Δ Rural / urban coverage


## Where are we

- Start: e-MFP 2011
- NDAs signed, data provided, data cleaning
- Preliminary results: SPTF 2012
- Mid-term results: e-MFP 2012
- Final results: e-MFP 2013
  
- What's next?
  - Data providers to give feedback on the Draft Brief
  - Editing
  - Finalizing e-MFP Brief
  - Publishing e-MFP Brief

## Control Variables

- **REGRESSION**
  - Country
  - Region
  - Age
- **ROBUSTNESS TEST**
  - Size
  - Year of assessment
  - Database provider
  - Profit focus
  - Charter type
  - Lending methodology
  - Number of borrowers
  - % female borrowers
  - Number of savers
  - Client drop-out ratio
  - Area of lending (ie urban or rural)

## Robustness test



Some  
controls  
could not be  
included in  
regression

- None of the controls is significantly correlated to both a client protection and a financial performance variable:
- ✓ Results are not affected

# Dataset Construction: step by step

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- Pooling the datasets of the eight providers:
  - Signing of (restrictive) Non-Disclosure Agreements between Research Team of Uni St. Andrews and the providers
  - Reception of original datasets
  - Analysis of original datasets according to data availability/missing data
  - Research Team independently suggests a matching of different data providers criteria on common client protection themes
    - Common Themes identified were: Price Transparency, Complaints Procedure, Privacy of Client Data and Ethical Staff Behavior, Avoidance of Over-Indebtedness, Appropriate Debt Collections Practices.
  - 30min or longer interviews with each provider to (i) confirm or revise the matching, (ii) understand of additional data points are available and (iii) receive general feedback
  - Reception of additional data points from providers (last one received Nov 9<sup>th</sup> 2012)
- Aligning of the providers' datasets
  - Rescaling the assessment schemes to a common range with Min 0 and Max 1
  - Measuring the variability across data providers
  - Identifying duplicates (same year, same MFI rated by two or more providers) and choosing the one which is not MiX or otherwise averaging the assessment

Outcome: Up to 2,907 MFI-Year observations between 2004-2011 from 95 countries



## Technical Details

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- Pooled/Very unbalanced panel regression
- Robust standard errors clustered at regional or country level
- Regions classified according to Worldbank
- Automatic multicollinearity adjustments
- Use of strict significance levels 95%, 99%, 99.9%
- Individual provider analyses performed