



Growth of Microfinance Sector At The International Level

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ABSTRACT

Microfinance refers to the provision of micro savings, micro credit, micro insurance and other micro financial services like micro pension, micro remittances, etc. for the socially disadvantaged but for economically active poor. In recent years, microfinance has become a major tool of development and is fast developing as an international industry with its own trade associations, dedicated finance, training and other support organisations, research and journals. The present paper examines the overall growth of the microfinance sector during 2001-11 in the entire world. Moreover, disaggregated region wise data has also been analysed to examine the regional performance of the sector towards the overall growth of microfinance sector in the international level.

KEYWORDS

Microfinance, Mix Market, MFIs.

INTRODUCTION

It is a well known fact that in most developing countries, poor households rely heavily on informal financial institutions such as moneylenders, neighbours, relatives and local traders for credit, and may not have access to safe and convenient savings services (Ravicz, 1998). This is because of the fact that formal financial institutions such as commercial banks do not serve the needs of the poor households and micro-enterprises because of the high cost of small transactions, lack of traditional collateral, lack of basic requirements for financing and geographic isolation. To fill the void, policy makers throughout the world have actively tried to improve the financial markets in poor regions. Many governments have introduced the delivery of formal credit to rural areas by setting up special agricultural banks/state-owned development banks or directing commercial banks to loan to rural borrowers. However, these programmes have almost all failed because of the political difficulty for governments to enforce loan repayment and also because of the interest rate restrictions which prevented banks from operating viably in poor areas (Armendariz & Morduch, 2005). Moreover, the failure of these institutions could also be attributable to the fact that relatively wealthy and powerful people rather than the poor people received most of the loans granted by these types of financial institutions. The recent proliferation of innovative microfinance programmes, often based on a group lending methodology has been largely inspired by the belief that such programmes reach the poor and have positive impact on their economic and social well being (Coleman, 2002). This has been accompanied by the rise of social entrepreneurs, notably in Bangladesh. Using innovative strategies involving groups of women, joint liability, progressive lending, small loans and weekly repayments, they demonstrated that it is possible to lend to the poor and have high rates of recovery and because of that, a consensus on microfinance has developed, broadly within the neo-liberal framework, which highlights the possibility of profitable banking with the poor.

OBJECTIVES OF THE STUDY

The overall objective of the present study is to examine the progress of microfinance sector at the international/world level. But the specific objectives of the study are mentioned below:

1. To examine the region wise growth of Micro Finance Institutions (MFIs) in the world.
2. To examine the region wise growth of number of active borrowers in the world.
3. To examine the region wise growth of gross loan portfolios of the MFIs in the world.

METHODOLOGY OF THE STUDY

The present study is fully based on secondary data that were collected from the website of Mix Market i.e., <http://www.mixmarket.org> for period 2001 to 2011 for examining the growth of microfinance sector in the world. Compound Annual Growth Rate (CAGR) has been calculated for analysing the data.

INTERNATIONAL SCENARIO OF MICROFINANCE

The growth and performance of microfinance sector in the international arena during the recent years has shown significant differences across the different regions of the world (Puahazhendhi, 2013). This could be attributable to the fact that microfinance as a part of the overall financial sector is expected to be influenced directly or indirectly by the positive or negative changes that take place in the global economy or the regional financial markets. Srinivasan (2012) had used the Mix Market data (disaggregated region wise) for the period 2003-09 to study the developments in the world wide microfinance sector. He found that the overall trends show that microfinance has not been performing as well as it should have been. He further reports that the growth rates have abated and in fact there was a decline in the number of active borrowers in two out of six regions. In two others, the growth rates had plateaued out and only in South Asia there was continuing growth in number of active borrowers. Moreover, Puahazhendhi (2013) also analysed the Mix Market data for the period 2003-10 to capture the direction of the movement of the sector among the different regions of the world. He observed that the number of MFIs had, by and large, shown an upward trend in almost all the regions of the world up to the year 2007 and 2008, after which the numbers have started dwindling in all the regions.

However, till date there is no systematic and comprehensive database available on MFIs around the world for measuring the changes that is happening in the microfinance sector. Moreover, there are no authoritative figures on key characteristics of the microfinance industry such as the number and size of MFIs, their financial position or the population served and of course, the task of providing a worldwide inventory of microfinance data is condemned to be partial and many MFIs will always be missing. Moreover, generation of systematic data on the microfinance industry has been complicated by several factors, including the informality and dispersion of MFIs, lack of consensus on the data needed and lack of universally accepted and clear-cut definitions of the products that qualify as microfinance or the boundaries of the industry (IMF, 2005).

Inspite of these drawbacks, there are independent datasets

of varying quality and coverage that have been collected by different agencies such as Microfinance Information Exchange (MIX), the Savings Groups Information Exchange (SAVIX), the Microcredit Summit, the World Council of Credit Unions (WOCCU) and the World Savings Banks Institute (WSBI) (Ledgerwood, Earne & Nelson, 2013). Amongst these agencies, MIX provides the largest cross-country database of MFIs around the world. It covers information of approximately 2,000 MFIs that serve more than 80 percent of all known microfinance clients worldwide (MIX, n.d.; <http://www.mixmarket.org>). MIX reports that the MFIs currently operate in over 100 countries thereby serving more than 94 million clients across the globe (<http://www.themix.org>). Further through various socio-economic linkages of the borrowers and their families, microfinance has impacted upon the lives of around one billion people in emerging markets and developing countries (Lutzenkirchen & Weistroffer, 2012).

But the aggregate picture (disaggregated region wise) of microfinance as provided in the MIX database considerably underestimates the MFIs reach across the globe as compared with the Microcredit Summit Campaign Reports (Shetty, 2012). The reason for this under estimation of MFIs reach across the globe is attributable to the fact that as MIX collects data from non-regulated institutions, the information requested is geared more toward sustainable institutions with the capacity to report prescribed indicators on a consistent basis. Consequently, the majority of smaller MFIs, savings and credit cooperatives (SACCOs), and others do not participate in the reporting of their performance data to MIX (Ledgerwood et al. 2013).

Table 1 shows the growth of MFIs in different regions of the world during 2001 to 2011. From the table, it is observed that in 2001, the total number of MFIs in the world was 310, but which has increased to 1,357 in 2011 thereby registering a growth rate of 15.9 percent. But a comparison of the growth rate of MFIs in different regions of the world reveals that the East Asia and the Pacific region has the highest growth rate (24.4 percent) followed by South Asia region (23.8 percent), Eastern Europe and Central Asia region (15.8 percent), Latin America and the Caribbean region (15.7 percent), Middle East and North Africa region (13.5 percent) and Africa region (10.4 percent).

Table 1: Growth of MFIs in the World – Region Wise

Year	Africa	East Asia and the Pacific	Eastern Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Total
2001	111	23	47	87	16	26	310
2002	171	43	84	111	20	81	510
2003	194	93	155	164	29	134	769
2004	183	118	189	220	38	199	947
2005	243	140	220	275	42	215	1135
2006	255	167	242	307	48	209	1228
2007	241	156	235	369	52	168	1221
2008	270	168	290	388	63	199	1378
2009	322	183	246	388	69	240	1448

2010	288	177	231	401	68	236	1401
2011	299	204	203	375	57	219	1357
CAGR (During 2001-2011)	10.4	24.4	15.8	15.7	13.5	23.8	15.9

Source: <http://www.mixmarket.org>; Accessed on: 23/05/2013.

Table 2 shows the region wise growth of number of active borrowers in the world during 2001 to 2011. From the table, it is observed that the number of active microfinance clients was 7 million in 2001 which has increased to 94.6 million in 2011 thereby registering a compound annual growth rate of 29.7 percent. Region wise comparison of the growth of number of active micro borrowers during the period under consideration reveals that the growth rate of the regions like East Asia and the Pacific, Eastern Europe and Central Asia and South Asia are higher than the overall growth rate whereas the growth rate of the other three regions like Africa, Latin America and the Caribbean and the Middle East and North Africa are lower than the overall growth rate.

Table 2: Growth of Number of Active Borrowers in the World – Region Wise (in millions)

Year	Africa	East Asia and the Pacific	Eastern Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Total
2001	1.3	0.4	0.1	1.5	0.2	3.4	7.0
2002	3.9	3.7	0.4	2.0	0.4	10.9	21.3
2003	4.0	4.6	0.7	3.5	0.5	13.5	26.8
2004	3.4	5.4	1.0	4.8	0.8	18.0	33.3
2005	4.3	9.6	1.3	7.8	1.2	24.5	48.8
2006	5.3	10.8	1.8	9.5	1.7	30.4	59.5
2007	6.2	8.8	2.4	12.2	2.3	36.2	68.1
2008	7.1	15.4	3.0	13.5	2.5	42.0	83.5
2009	10.8	14.3	2.8	14.8	2.5	52.2	97.5
2010	5.5	16.3	2.8	16.4	2.2	58.2	101.3
2011	6.1	15.0	2.6	18.3	2.3	50.3	94.6
CAGR (During 2001-2011)	16.7	43.7	38.5	28.4	27.7	30.9	29.7

Source: <http://www.mixmarket.org>; Accessed on: 23/05/2013.

Table 3 shows the region wise growth of gross loan portfolio in the world during 2001 to 2011. From the table, it is observed that the overall growth rate in the gross loan portfolio during the 11 year period under consideration is 46.6 percent. On the other hand, the region wise comparison of growth of gross loan portfolio reveals that only two regions, i.e., East Asia and the Pacific and Eastern Europe and Central Asia have the growth rate more than the overall growth rate of gross loan portfolio in the world. The other four regions i.e., Africa, Latin America and the Caribbean, Middle East and North Africa and South Asia have the growth rate lower than the overall growth rate in the world. The regional growth rate ranges from as low as 29.2 percent for Middle East and North Africa to as high as 77.8 percent for East Asia and the Pacific.

Table 3: Growth of Gross Loan Portfolio in the World – Region Wise (in billion USD)

Year	Africa	East Asia and the Pacific	Eastern Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Total
2001	0.3	0.1	0.1	1.2	0.1	0.2	1.9
2002	0.6	1.5	0.6	1.4	0.1	0.7	4.9
2003	0.7	0.9	1.3	2.7	0.2	1.0	6.6
2004	0.9	1.1	2.2	4.1	0.3	1.4	10.0
2005	1.2	3.9	3.1	7.5	0.4	2.0	18.1
2006	1.6	4.9	5.0	10.4	0.6	2.7	25.1
2007	2.9	3.2	7.9	14.9	1.0	3.8	33.6
2008	3.7	8.4	10.1	15.8	1.2	5.1	44.3
2009	4.9	31.3	8.8	19.8	1.3	7.8	73.9

2010	5.0	39.1	9.1	23.7	1.3	9.2	87.4
2011	7.8	31.6	10.3	27.9	1.3	7.9	86.9
CAGR (During 2001-2011)	38.5	77.8	59.0	37.0	29.2	44.4	46.6

Source: <http://www.mixmarket.org>; Accessed on: 23/05/2013.

CONCLUSION

The aggregate number of borrowers served by microfinance institutions (MFIs) reporting to MIX Market (www.mixmarket.org) grew by more than 29 percent per year on average in the 2001-11 period, while the gross loan portfolio grew by more than 46 percent per year on average in the same period. For many microfinance practitioners and industry leaders, this level of growth is a reason for celebration, as it points towards the success of microfinance sector in delivering low cost financial services to the hitherto unserved poor and low-income households and businesses. However, recently we have seen that not all participants in the microfinance sector are practicing safe microfinance. The players in the microfinance sector face temptations that lure them away from healthy long-term relationships with their clients. But through appropriate product design and delivery, transparency, responsible pricing, privacy of client data and respectful treatment of clients can help us to build a strong financial system for the poorest of the poor people.

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