

Introduction  
Typology  
Data and methods  
Analyses  
Conclusions

## Global Financial Partnerships in Microfinance India, Peru and Tanzania

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- 1 Introduction
  - Outline
  - Motivation and Background
- 2 Typology
- 3 Data and methods
- 4 Analyses
  - India (Tamil Nadu)
  - Peru
  - Tanzania
- 5 Conclusions

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Outline  
Motivation and Background

## Project

- Optimising the Dual Goals of Microfinance: a social network analysis and simulation.
- Funded by Leverhulme Trust, 2009-12.



## Project

### Idea:

- Map relationships between organisations in microfinance;
- Identify patterns in the structure of their interactions;
- Relate them to outcomes, both social and financial;
- Derive recommendations for further improvement.



## This paper

### Global Financial Partnerships in Microfinance: India, Peru and Tanzania

- Focus is on financial relationships of MFIs with funding partners;
- We look at wholesale lending to MFIs -a common form of funding;
- Lenders are diverse: profit/nonprofit, domestic/international...
- Borrowers (MFIs) are diverse too: regulated/unregulated, profit/nonprofit, small/large, deposit-taking/lending-only...

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- Borrowers (MFIs) are diverse too: regulated/unregulated, profit/nonprofit, small/large, deposit-taking/lending-only...

⇒ Does the structure of lending relationships relate to MFIs' capacity to achieve their social and financial goals?

Does this differ across types of lenders and borrowers?

## A comparative study over three countries

- We study wholesale lending to MFIs in India (Tamil Nadu), Peru, and Tanzania;
- We consider differences in the social, economic and regulatory environment.
- Focus is on 2006-8 (pre-crisis years).



## Typology of wholesale borrowers (MFIs)

<b>Position vis-a-vis financial authorities</b>	<b>Type</b>
Regulated	Bank, Cooperative, Non-banking financial institution
Unregulated	NGO, Cooperative

## Typology of wholesale lenders

Primary motivation	Type
Commercial	Bank, Non-banking financial institution
Social	Governmental or inter-governmental agency, NGO
Mixed	Socially responsible investor

Also: national/international.

## Data

- MixMarket as main source, completed with other databases (The Rating Fund, Sa-Dhan, TAMFI);
- List of MFIs established, as complete as possible for each country;
- Names of lenders extracted from MFIs' audited financial statements and rating reports;
- Dataset of inter-organisational lending established on this basis for 2006-7-8.

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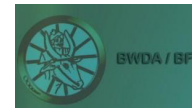
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## Methods

- Social network analysis and visualisation tools;
- Fieldwork (2009-10) and contact with partner MFIs for complementary insight.



## The wholesale lending network in Tamil Nadu

- Context of strong economic growth, highly developed microfinance market;
- Government intervention: directed credit requirements, restrictions to FDI;
- Local banks lend substantially to MFIs, involvement of international lenders is limited;
- MFIs differ widely both in social and financial performance.



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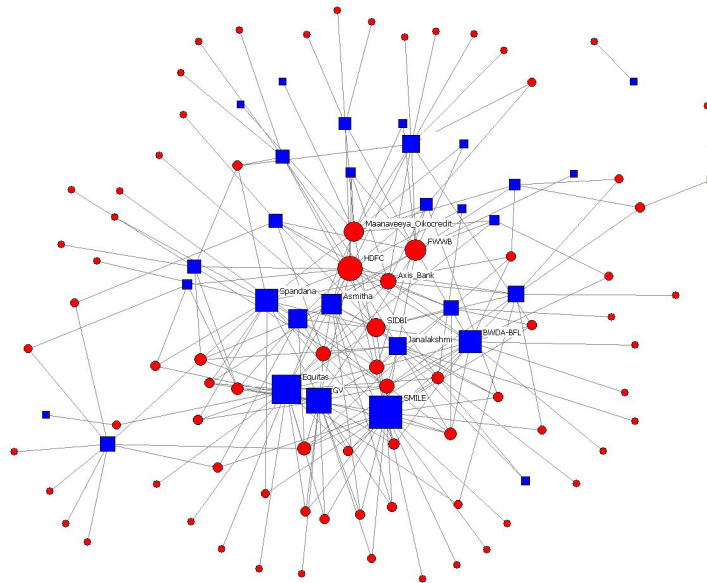


Figure: MFIs (blue) and their lenders (red); a tie represents a loan. Size depends on number of lending partners.



## A cohesive network

- Network cohesiveness: one large component, all actors are directly or indirectly connected;
- MFIs have lenders in common; share a tendency to borrow from (many) domestic financial institutions;
- MFIs diversify in terms of *number* rather than *type* of lenders.

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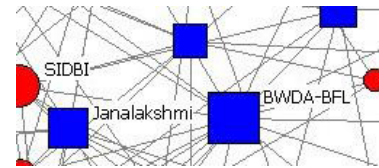


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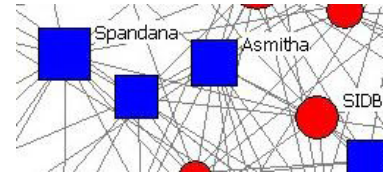
## A cohesive network (cont.)

- Most central borrowers include MFIs with HQs in Tamil Nadu (BWDA-BFL)...
- ... or with branches there (Asmitha, Spandana);
- Among most central banks are HDFC, Axis Bank...;
- Few non-bank lenders are central: SIDBI, FWWB, Oikocredit.



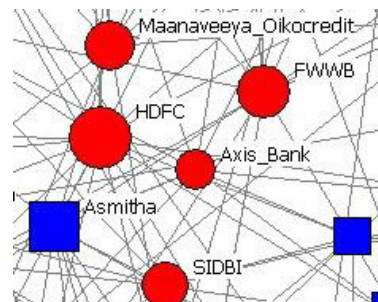
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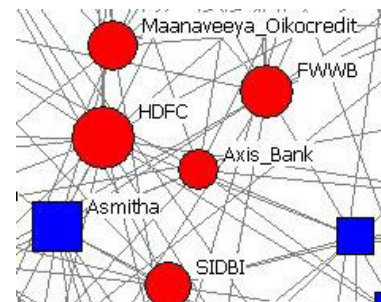
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## Opportunities and challenges

- MFIs are very similar in the overall structure of their lending partnerships;
- They vary much more in their (social and financial) performance;
- Local banks play a key role in funding MFIs but yield vulnerabilities if:
  - financial crisis / widespread bank failures;
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⇒ if needed, could MFIs attract new, different lenders?

## The wholesale lending network in Peru

- A well-regulated and mature microfinance market;
- First place in EIU's 2009 ranking: a most enabling environment for microfinance;
- Strong incentives for MFIs to become regulated financial institutions;
- Some form of self-monitoring and reporting also for unregulated MFIs (COPEME).



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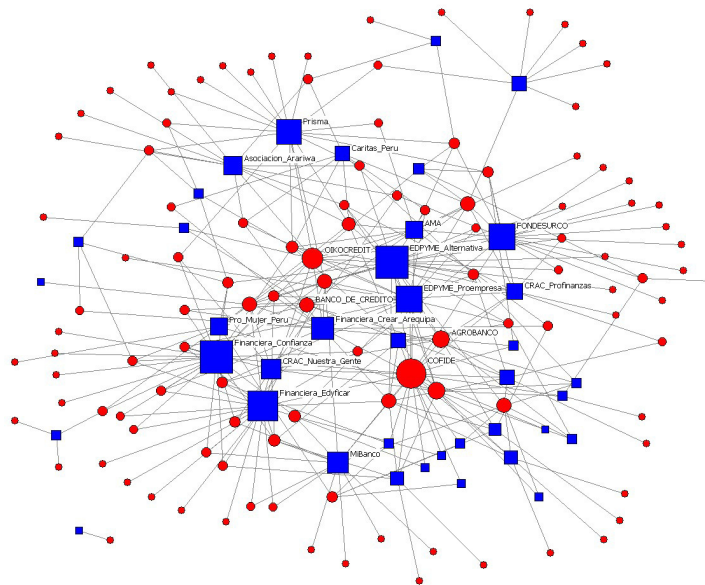


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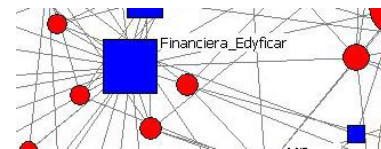


## A cohesive, diverse network

- A very cohesive network;
- Most central borrowers:
  - regulated (Financiera Edyficar);
  - unregulated (Prisma);
- Most central lenders are diverse: commercial, social, mixed;
- Almost equal share of national/international lenders.

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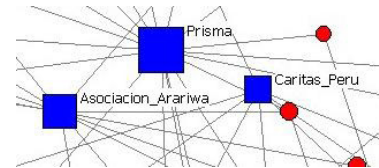
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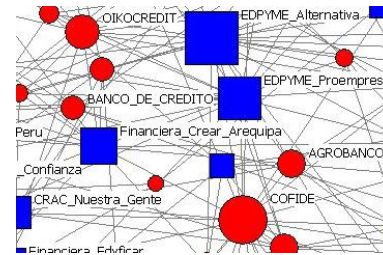
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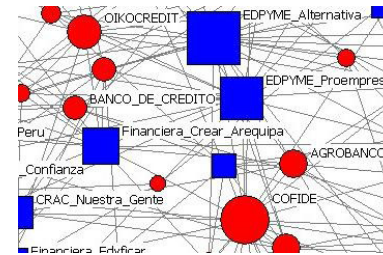
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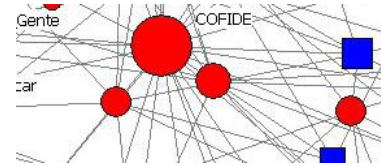
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## A cohesive, diverse network (cont.)

Some tendency towards specialisation:

- COFIDE: main lender for regulated MFIs;
- Oikocredit: main lender for unregulated MFIs.



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## Opportunities and challenges

- Commonalities in MFIs' networks and strength of market point to positive externalities;
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- However, progressive integration into regular financial markets may alter this balance in future.

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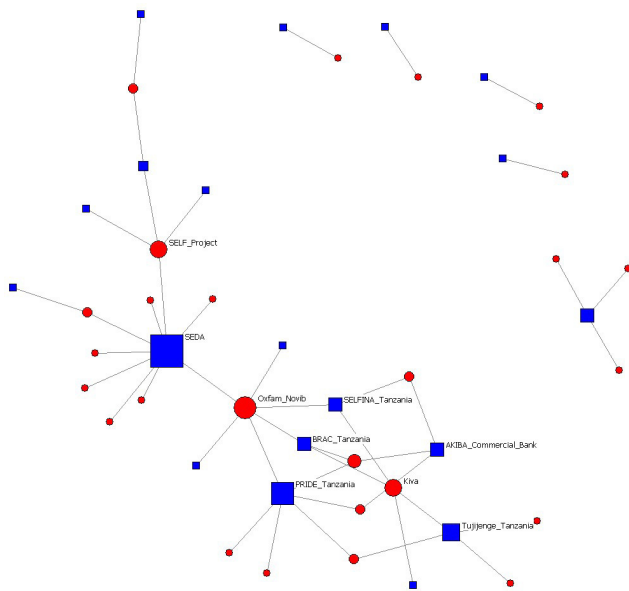


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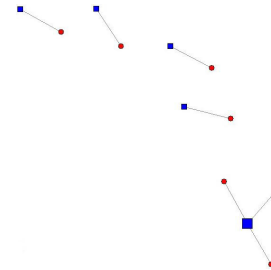






## A small, sparse network

- Non-cohesive, sparse network:
  - small components;
  - “stars” (MFIs not sharing lenders);
- Due to:
  - small size of market;
  - strong parent-subsidary relationships;
  - limited data availability.



## A more complex picture

- The microfinance market may evolve due to local banks moving downmarket;
- Also consider presence of SACCOs (not represented here);
- Both some MFIs and local banks lend to SACCOs;
- Impact on competitive conditions that MFIs face.

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- A market dominated by international socially-oriented donors so far;
- Involvement of commercial lenders limited but growing;
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## Conclusions

- India and Peru:
  - Dense networks accompany strive for legitimacy in financial markets while still attracting social investors;
  - Greater strength in Peru, due to more balanced involvement of different types of stakeholders.
- Tanzania: the network is sparser, with greater vulnerabilities.

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Thank you!

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