

Inter-organisational networks in microfinance

Lending partnerships in India, Peru and Tanzania

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Microfinance and its dual goals

- Microfinance is the provision of financial services to the unbanked, mostly women in developing countries.
- It enables poorer people to fund small businesses, insure against risk, and save.
- By so doing, it contributes to poverty alleviation.
- Long-term survival and sustainability impose standards of financial performance.

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⇒ The challenge is to achieve both social and financial goals.

Stakeholders, partnerships and the dual goals

- A variety of stakeholders:
 - Microfinance institutions (MFIs) in developing countries;
 - Official development agencies, governments;
 - Private investors, banks;
 - Charities, NGOs;
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- A variety of relationships:
 - Financial / non-financial;
 - Global / local;
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⇒ Partnerships may affect social and financial goals.

This paper

- 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...

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⇒ 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 settings

- 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 2008.



Typology of wholesale borrowers (MFIs)

Position vis-a-vis financial authorities	Type
Regulated	Bank, Non-banking financial institution
Unregulated	NGO

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.

Research questions

We study the extent to which the number of lenders of each type is related to MFIs':

- Size (large/small), age (mature/start-up) and legal status (regulated/unregulated);
- Financial performance;
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- MixMarket (an industry information service) as main source;
- List of MFIs established, as complete as possible for each country;
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Wholesale lending relationships, Tamil Nadu 2008.

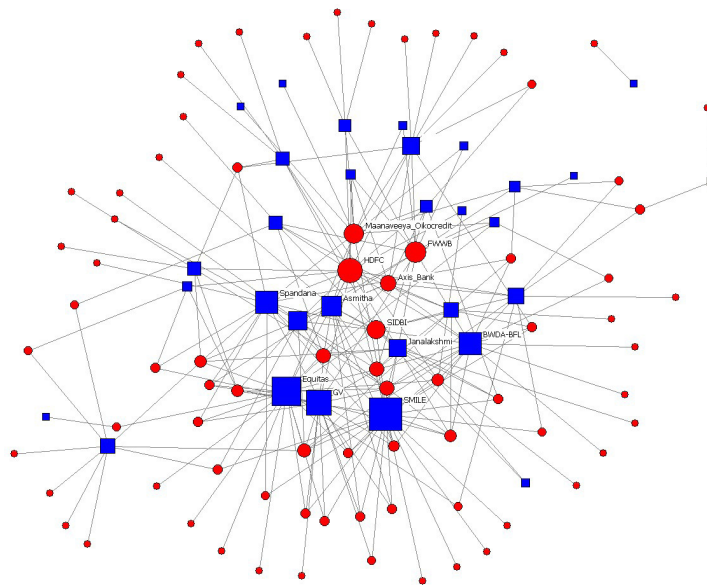


Figure: MFIs (blue) and their lenders (red); a tie represents a loan. Size depends on number of lending partners.



A cohesive network

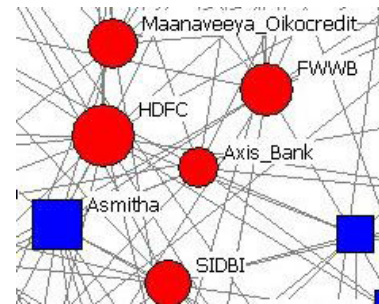
- Network cohesiveness reveals similarities across MFIs;
- Specifically, MFIs share a tendency to borrow from (many) domestic banks;
- Lenders with highest centrality are banks;
- Few key non-bank lenders: SIDBI, Oikocredit, FWWB.

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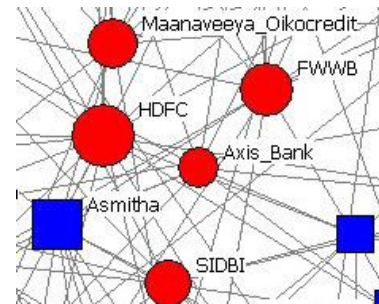
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Opportunities and challenges

- MFIs diversify in terms of *number* rather than *type* of lenders;
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 - This arrangement has been successful so far but may yield vulnerabilities if legislation changes (recent proposal).
- ⇒ 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;
- Incentives for MFIs to become regulated financial institutions;
- Some self-monitoring and reporting also for unregulated MFIs.



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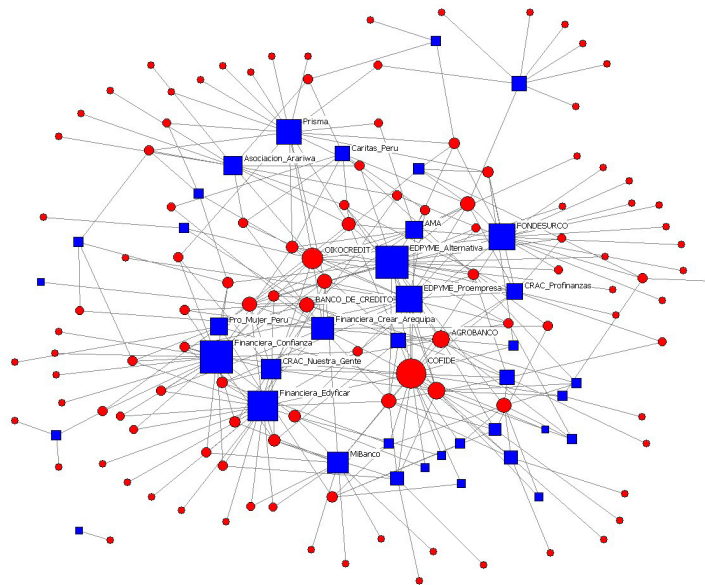


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A cohesive, diverse network

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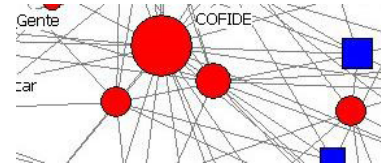
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A cohesive, diverse network (cont.)

Some degree of specialisation,
without complete separation:

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- Commonalities in MFIs' networks and strength of market point to positive externalities;
- Balance between commercially/socially motivated lenders mirrors balance between commercial/social goals of MFIs;
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The wholesale lending network in Tanzania

- A small-size, less mature market;
- Recent advances in regulation, but further progress needed;
- Strong presence of international donors and NGOs;
- More reliance on donations than commercial loans;
- Need for more transparency (limited data availability).



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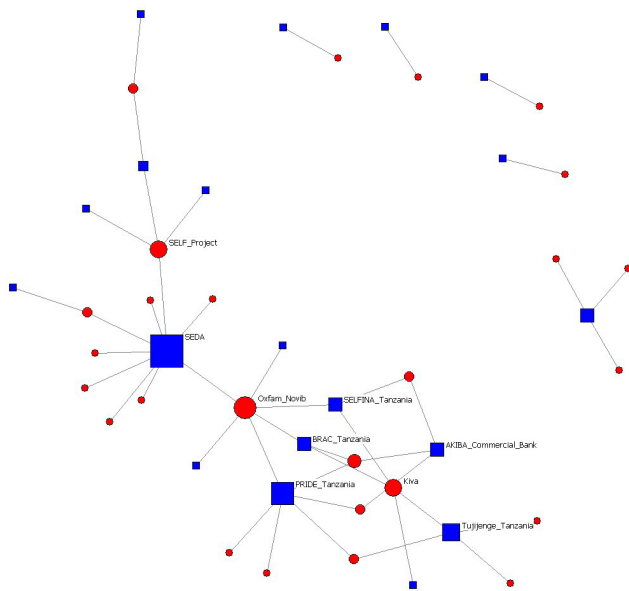
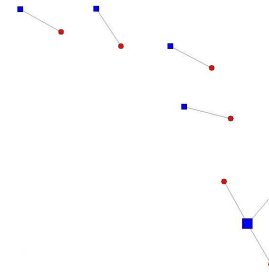


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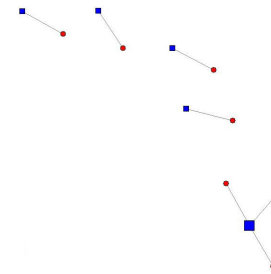
A small, sparse network

- Non-cohesive, sparse network:
 - small components;
 - “stars” (MFIs not sharing lenders);
- Due to:
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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;
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Thank you!

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