

The performance of microfinance institutions: An analysis of the local and legal constraints

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Abstract

Global financial inclusion recently has been the focus of many international development agencies. Myriad of initiatives have been taken, amongst which microfinance has proved an unprecedented success in poverty alleviation, women empowerment and even macroeconomic growth through facilitation entrepreneurship for the underprivileged. Despite a promising outcome in global scale, not all Microfinance Institutions have witnessed a similar success. While in Asia subsidies and donations have been the key of MFIs survival, in Latin America commercialisation has brought success. In Asia microfinance gained the fame for high social outreach, and in Latin America for the subsidies-independency and financial sustainability. Much as it seems that location plays the main role, overtime the globalisation of microfinance and the expansion of standout MFIs led the role of geography to weaken. Now, global microfinance consists of many MFIs, such as FINCA, Grameen and Kiva that run in different countries, yet applying united strategies. Similar dynamism is seen in the legal status of MFIs in the form of turning many NGOs into Non-Bank Financial Institutions or the increase in the number of Microfinance Cooperatives. In light of this, we aim to shed light on the heterogeneity in location and legal status of MFIs and its impact on their dual objective performance. To do so, we applied multiple non-parametric meta-frontiers to evaluate of relative performance of MFI compared to their peers inside and outside of typological and geographical constraints. The analysis is conducted on 462 MFIs worldwide and provide insight about the share of inefficiency caused by the aforementioned constraints (called technology gap) and that of mismanagement.

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