Emerging Markets Review 25 (2015) 92–124

Contents lists available at ScienceDirect

Emerging Markets Review

journal homepage: www.elsevier.com/locate/emr

Benchmarking the financial performance, growth, and outreach of greenfield MFIs in Africa☆

Robert Cull [a,*], Sven Harten [b], Ippei Nishida [a], Anca Bogdana Rusu [a], Greta Bull [b]

[a] World Bank Development Economics Research Group, United States
[b] International Finance Corporation, United States

ARTICLE INFO

Article history:
Received 7 May 2015
Accepted 14 May 2015
Available online 21 May 2015

JEL classification:
G21
G28
O1

Keywords:
Microfinance
Africa
Financial inclusion

ABSTRACT

We use regressions to benchmark African greenfield microfinance institutions (MFIs) relative to other African microfinance providers and find that greenfields grew faster, improved profitability to levels comparable to the top MFIs, and substantially increased their lending to women. Effects were strongest for greenfields that followed a consultant-led model to establish a deep retail banking presence spanning multiple countries, including the creation of extensive branch networks. Though their loan sizes are larger than most African MFIs, indicating less outreach to the poorest market segments, they have achieved rapid gains in financial inclusion on a broad scale for somewhat more affluent clients.

1. Introduction

In recent years, financial inclusion—meaning the furthering of broad access to financial services tailored to specific needs, at affordable prices (after taking into account costs incurred by users such as travel)—has become an important research topic in both development and finance.[1] The objective of this paper is to study the impact of a new type of entrant, greenfield microfinance institutions, on the quality, breadth, and depth of usage of

☆ We thank Ruth Dueck Mbeba, Julie Earne, Tor Jansson, Maria Soledad Martinez Peria, Peer Stein, and Colin Xu for very helpful comments. The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the World Bank, its Executive Directors, or the countries they represent. This research was funded under the Partnership for Financial Inclusion in Sub-Saharan Africa. The Partnership is between The MasterCard Foundation and IFC bringing together the intellectual and financial capital of the Foundation with IFC's market knowledge, expertise and client base. The partnership is also joined by The Development Bank of Austria, OeEB, and collaborates with knowledge partners such as the World Bank and CGAP.

* Corresponding author. Tel.: +1 202 473 6365; fax: +1 202 522 1155.
E-mail address: rcull@worldbank.org (R. Cull).

[1] See, for example, Demirgüç-Kunt and Klapper (2012) for a description of the latest efforts to measure financial inclusion and a brief overview of related research.

http://dx.doi.org/10.1016/j.ememar.2015.05.002
1566-0141/

financial services in Sub-SaharanAfrica. To get at those concepts, we rely on the best available indicators that proxy for the growth, financial performance, and outreach to typically underserved market segments of a set of twenty-six greenfield microfinance institutions (MFIs) that entered Africa beginning in 2005. Here we rely on the definition of greenfield financial institutions developed in a joint CGAP/IFC paper (Earne, Jansson, Koning, and Flaming, 2014), which refers to institutions that are created without any pre-existing organization.[2] They use standard operating procedures disseminated by a central group, often a holding company. The holding company usually plays a strong governance and management role, and holds a majority stake in their investees.

As described in greater detail below, the greenfield MFIs that are our focus are almost all majority-owned by foreign entities (i.e., the controlling owners are not residents of the African countries in which those institutions operate), and a substantial share of them are committed to establishing a deep retail banking presence in these countries including the creation of extensive branch networks. As our empirical results show, that strategy has had implications for both the growth and operating performance of those MFIs relative to other MFIs operating in the same markets. Specifically, we find that the greenfields grew faster in terms of deposits and lending, improved their profitability to levels comparable to the top African MFIs, and substantially increased their lending to women.

The remainder of the paper is organized as follows. Section 2 describes related literature. Section 3 describes the organization and strategy of microfinance greenfields in Africa. We emphasize that this is a new approach to cross-border banking in Africa, designed to reach poorer market segments via newly built retail branches. This contrasts with much of the cross-border banking in Africa to date that has involved the acquisition of pre-existing banks and provision of financial services to the corporate sector and wealthier clients (see Beck et al., 2014 for a detailed discussion), but also with the approaches pursued by other microfinance institutions now operating in Africa, especially those that rely on group liability lending and are organized as non-governmental organizations (NGOs), credit unions, or cooperatives. Section 4 describes our data and approach to estimation. Section 5 presents our regression results comparing the greenfields to other African microfinance institutions, subdivided into four areas: (a) depth of outreach to poorer market segments, (b) financial performance including portfolio quality, (c) growth in lending and deposits over time, and (d) the evolution of operating costs and loan pricing. Section 6 offers concluding remarks.

2. Related literature

Our analysis is most closely related to papers emphasizing market segmentation in microfinance and how the organizational structures and funding sources of MFIs influence their objectives, target markets, financial performance and depth of outreach. For example, Baquero, Hamadi, and Heinen (2012) use measures of concentration and competition within the microfinance sector to show that non-profit institutions are relatively insensitive to competitive pressures, while for-profit institutions are sensitive, pushing them to reduce interest rates charged to borrowers. Other studies have emphasized how corporate governance arrangements (board and CEO characteristics, ownership type) affect MFIs' financial performance and outreach to typically underserved market segments (Hartarska, 2005; Mersland and Strøm, 2009). Those studies have also shown that prudential supervision reduces MFI profitability (Hartarska, 2005) and has modest impacts on outreach (Hartarska and Nadolyak, 2007; Mersland and Strøm, 2009), though some MFIs reduce outreach to underserved market segments, while others maintain outreach but suffer reduced profitability in absorbing the additional costs of supervision depending on their type (Cull, Demirguc-Kunt, and Morduch, 2011).

In African microfinance, most of the entry has been relatively recent and the range of microfinance institutions suggests that not all of them compete for the same market. In terms of growth, the number of borrowers served by the African microfinance institutions (MFIs) that report to the Microfinance Information eXchange (the MIX) increased from 1.6 million in 2003 to 8.5 million in 2009.[3] As of 2009, MFIs organized

[2] We set out to describe the growth, outreach, and financial performance of a broader set of thirty-eight African greenfield MFIs (see Table 3), but data availability limited us to only twenty-six greenfields in the regressions that follow. CGAP is the Consultative Group to Assist the Poor, an independent policy and research center dedicated to advancing financial access for the world's poor. Established in 1995 and housed at the World Bank, CGAP combines a pragmatic approach to market development with an evidence-based advocacy platform to advance poor people's access to finance. IFC, the International Finance Corporation, is a member of the World Bank Group and the largest global development institution focused exclusively on the private sector in developing countries. It finances and provides advice for private sector ventures and projects in developing countries.

[3] This is roughly consistent with the period that we study below in our regressions.