DIPLOMARBEIT

Titel der Diplomarbeit

Microfinance

An Analytical Study of
Developing, Emerging, and Advanced Economies

Verfasserin
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Angestrebter akademischer Grad

Magistra der Sozial- und Wirtschaftswissenschaften
(Mag. rer. soc. oec.)

Wien, im April 2009

Studienkennzahl lt. Studienblatt:	157
Studienrichtung lt. Studienblatt:	Internationale Betriebswirtschaft
Betreuer/Betreuerin:	Univ.-Prof. Dr. B. Burcin Yurtoglu

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Wien, im April 2009

Sylke Gruhnwald

To my Family.

"Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family,
including food, clothing, housing and medical care and necessary social services,
and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond this control."

Article 25 of the Universal Declaration of Human Rights.

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Abbreviations and Acronyms

ACCIÒN International	Americans for Community Cooperation in Other Nations
ADIE	Association pour le Droit à l'Initiative Economique
AIMS	Assessing the Impact of Microenterprise Services
ASA	Activists for Social Alternatives
ASEAN	Association of Southeast Asian Nations
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
CDF	Credit & Development Forum
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CML	Capital Market Liberalisation
CPRC	Chronic Poverty Research Centre
DFI	Development Finance Institution
e.g.	Exempli gratia
Ed.	Editor
FAO	Food and Agricultural Organization of the United Nations
FINCA	Foundation for International Community Assistance
GDRC	Global Development Research Center
GIGA	German Institute of Global and Area Studies
GNI	Gross National Income
GNP	Gross National Product
GTZ	German Agency For Technical Cooperation Gesellschaft für Technische Zusammenarbeit
HDI	Human Development Index
HIID	Harvard Institute for International Development
HIV	Human Immunodeficiency Virus
HWWA	Hamburgerisches Welt-Wirtschafts-Archiv
i.e.	id est
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
ILO	International Labour Organization
IMF	International Monetary Fund
Inc.	Incorporation
IPD	Initiative for Policy Dialogue
Km	Kilometre
MCA	Microcredit Association
MCS	Microcredit Summit
MDG	Millennium Development Goals
MENA	Middle East and North Africa
MFI	Microfinance institution
MIL	Microfinance Initiative Liechtenstein
NBFI	Nonbank Financial Institution
NGO	Nongovernmental Organisation
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
Prof.	Professor

ROA	Return on Assets
Rs.	Rupees
SI	Sustainability Index
SMEs	Small and Medium sized Enterprises
sq.	Square
SRI	Social Responsible Investment
Tk.	Taka
UN HDI	United Nations Human Development Index
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
US	United States
USAID	US Agency for International Development
USD	US Dollar
WDR	World Development Report
WEO	World Economic Outlook
WSBI	World Savings Bank Institute
WTO	World Trade Organisation

1 From Microcredit to Microfinance

The small idea of "*[…] the provision of small-scale financial services such as credit, savings and other basic financial services to poor and low-income people*"[1] has rapidly advanced and spread from credit and informal savings groups in the 15th century to the challenge of inclusive financial systems and the comprehensive mechanism of Microfinance.[2] The award of the Nobel Peace Prize 2006 to the economics professor and founder Muhammad Yunus and the Grameen Bank in Bangladesh and the International Year of Microfinance a year earlier highlight the accelerating importance of Microfinance as a strategiy of development aid. Withal, Microfinance as development tool contributes to the fulfilment of the Millennium Development Goals (MDG) set out already in the year 2002 by Kofi Annan, the then Secretary General of the United Nations (UN), with the overall goal to halve poverty by 2015.[3]

The international approach *"From Aid to Trade"*[4] to Social Responsible Investment (SRI) put the economic thought in centre of attention whilst serving the specifications of financial technical intervention of Microfinance.[5] Rethinking banking towards broader access of the unbankable[6], namely poor and low-income households, to common financial products and services implies the proposition of a *"win-win-win situation"*.[7] Numerous Mircofinance Institutions now provide financial intermediation to millions of Microfinance customers facilitated through donations and subsidisation most of foreign sources.[8] The performance of Microfinance Institutions, their impact, their outreach to the poor and additionally the institutional sustainability, thus form the central ideas of the conceptual framework of Microfinance[9], referred to as the *"Ying and Yang of Microfinance"*.[10] The controversially discussed impact of Microfinance strongly calls for the persisting commitment of the international community contributing effectively to global solidarity.[11]

The recent shift *"from Microcredit to Microfinance"*[12] is most evident in recent developments in Microfinance elucidating that the microfinancial sector has evolved from a marginal, niche market to a maturing inclusive financial system. Microfinance is an integral element in the

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1 United Nations (2004), p. 4.
2 Cf. Helms (2006), p. 2.
3 Cf. Matthäus-Maier (2008), VIII. And cf. United Nations Millennium Development Goals (2008).
4 Microfinance Initiative Liechtenstein (-), p.1
5 Cf. Microfinance Initiative Liechtenstein (-), p.1
6 Cf. Armendáriz de Aghion and Morduch (2005), p. 14f.
7 McCord (2006), p. 359.
8 Cf. Mersland (2005), p. 4.
9 Cf. Kreuz (2006), p. 8.
10 Rhyne (1998). Cf. Mersland (2005), p. 4.
11 Cf. Kreuz (2006), p. 8.
12 Armendáriz de Aghion and Morduch (2005), p. 14.

transition to diverse and competitive financial systems promoting innovation, financial development and economic growth in society.[13]

1.1 Research Scope and Target of the Diploma Thesis

The research scope of the diploma thesis is an analytical study of Microfinance in developing, emerging, and advanced economies with the target to identify expedient intersections and fundamental differences in financial sustainability, impact and outreach of the global microfinancial sector to poor and low-income households.

1.2 Structure of the Diploma Thesis

The initial point of the diploma thesis on *Microfinance – An Analytical Study of Developing, Emerging, and Advanced Economies* is the introduction of the theoretical concept of Microfinance. Chapter 2 provides an overview of current definitions focusing on the microfinancial products and services *Credit*, *Savings*, and *Insurance*, and recent findings in literature on the Microfinance movement on its path towards commercialisation.[14]
The theoretical models of development finance of McKinnon and Shaw (1973), and Stiglitz and Weiss (1981) are opposed to the practical grassroots approach of the Grameen in Bangladesh in Chapter 3 to elucidate the market mechanism of Microfinance.
Based on the conceptual framework of Microfinance, and the presented models of financial development and economic growth, strengths and weaknesses as well as substantial disparities are analysed and contrasted in the cross-regional analysis of Microfinance Institutions in Asia and the Pacific, Sub-Saharan Africa, the Middle East and North Africa, Europe and Central Asia, and Latin America and the Caribbean, contributing to the thesis in Chapter 4.
The critical evaluation of the Microfinance mechanism discussed in Chapter 5 affiliates to the results and future tenor of the practical field study on the performance of Microfinance Institutions presented in the previous Chapter.
Finally, Chapter 6 concludes this thesis with an outlook on future prospects and sustainable implications for development policies.

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13 Cf. Helms (2006), ix.
14 Cf. Vonderlack and Schreiner (2001), p. 5ff.

2 Conceptual Framework of Microfinance

The nature of the trade-off of sustainable economic growth and financial development is evidently prevalent by far in developing and emerging economies in comparison to advanced economies. The lack of national savings and foreign currency as marketable assets however prevent further essential investments required for long-term and sustainable growth of the less-developed world. Additionally, on the microeconomic level, poor and low-income households are short of collateral as prerequisite to the economic-active participation in financial markets. Due to this fact, developing and emerging countries and their populations face disproportionate interest rates for financial services far above common market level anticipating investments to augment the level of Gross National Income (GNI) and thus to combat poverty. Poverty is a global phenomenon revealing disparities in income, living standards, and levels of human development.[15] With poverty of parent generations reproducing poverty, it is Microfinance as tool of the development imperative to break this vicious circle.[16] The Consultative Group to Assist the Poor (CGAP)[17] defines eleven key principles of Microfinance to build up a global financial system for developing, emerging and advanced economies:

1. *"The poor need a variety of financial services, not just loans.*
2. *Microfinance is a powerful instrument against poverty.*
3. *Microfinance means building financial systems to serve the poor.*
4. *Financial sustainability is necessary to reach significant numbers of poor people.*
5. *Microfinance is about building permanent local financial institutions.*
6. *Microcredit is not always the answer.*
7. *Interest rate ceilings can damage poor people's access to financial services.*
8. *The government's role is an enabler, not as a direct provider of financial services.*
9. *Donor subsidies should complement, not compete with private sector capital.*
10. *The lack of institutional and human capacity is the key constraint.*
11. *The importance of financial and outreach transparency".*[18]

From High Finance to Microfinance – Microfinance accounts justifiably as the revolutionary approach to establish functioning financial markets with broad access for formerly

[15] Cf. Cypher and Dietz (2008), p. 3ff.
[16] Cf. Armendáriz de Aghion and Morduch (2005), p. 34ff.
[17] "*CGAP is housed at the World Bank, but operates as an independent entity. It has its own governance structure, designed with an agile board that includes microfinance practitioners and leaders from outside the funder community while preserving member representation*." Consultative Group to Assist the Poor (2009a).
[18] Consultative Group to Assist the Poor (2008).

marginalised populations eradicating given market imperfections, poverty, and gender discrimination as long-term goals.[19]

Current definitions and approaches to Microfinance in developing, emerging, and advanced countries are introduced in Chapter 2.1 to set the scene for the subsequent analysis.

The conceptual framework of Microfinance is not essentially about catering the necessities of poor and low-income households for Microcredit. Chapter 2.2 lays out Microfinance products and services providing adequate savings and insurance mechanisms for the improvement of the target group's living conditions and the creation of beneficial social welfare over all.

Microfinance with its variety of products and services reveals distinctive features relative to commercial banking in the formal sector. Its key objectives of poverty eradication and the women's empowerment form the peak of the critical triangle of Microfinance described in detail in Chapter 2.3.

The Microfinance Schism elucidates the *"absurd gap"*[20] between the supply and demand of Microfinance to aid poor and low-income populations of developing, emerging, and advanced economies. The impact of Microfinance is inevitable but yet financial markets are still imbalanced. Thus, the implementation of effective and suitable Microfinance programmes offers the opportunity to overcome such market failures, gender inequality and other societal issues as discussed in Chapter 2.4.

The role of financial services as suppliers of Microfinance intermediation is presented in Chapter 2.5. The advantages and barriers of the formal, semi-formal, and informal financial sectors to microfinance the poor evince that Microfinance is not *"a magic bullet"*[21] but yet evokes economic growth and financial development.

2.1 Defining Microfinance

The recent shift from Microcredit to Microfinance is inevitable. The broad term *Microfinance* comprises specifically small loans (*Microcredit*), the collection of savings from poor and low-income households (*Microsavings*), and the provision of insurances (*Microinsurance*). This triangle of financial products and services enforces the push with Microfinance transferring the market mechanism of lending and saving to the unbankable.[22] Microfinance Institutions, commercial banks and credit unions alike anchor a movement which is indeed global and growing. Armendáriz de Aghion and Morduch (2005) explicitly mention the diversity of

[19] Cf. Armendáriz de Aghion and Morduch (2005), p. 34ff.
[20] Robinson (2001), p. 6.
[21] Armendáriz de Aghion and Morduch (2005), p. 4.
[22] Cf. Armendáriz de Aghion and Morduch (2005), p. 14f.

Microfinance schemes ranging from village banking in remote areas, inner-city context to war-ravaged countries. [23]

Robinson (2001) presents a detailed definition of this global *"Microfinance Revolution"*[24] with Microfinance referring to"*[...] small-scale financial services – primarily credit and savings – provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban*"[25], over all the provision of sustainable finance to the poor.

Foremost, the United Nations incorporate Microfinance into the United Nations Millennium Development Goals[26] as remedy to halve poverty by 2015 since *"Microfinance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half"*.[27]

Ledgerwood (1998) defines Microfinance as "*the provision of financial services to low-income clients, including the self-employed. In addition to financial intermediation, some MFIs also provide social intermediation services, including help in group formation and the development of self-confidence, financial literacy, and other services*".[28]

Stiglitz et al (2007) clearly utilise the definition of Microfinance in its genesis form and the concept of Microcredits in their nature as *"loan contracts that mitigate [...] the pervasive problems of moral hazard and adverse selection in the absence of physical collateral"*.[29] Their analysis of Microfinance with a clear focus on the labour market of developing economies reveals important aspects of financial growth and economic development:

1. "*The credit-worthiness of poor female borrowers who face excessively high interest rates,*
2. *the microentrepreneurs' unwillingness or inability to scale up their economic activity, and*
3. *conflicting views about the elasticity of demand of credit interest rates for Microcredits."*[30]

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23 Cf. Armendáriz de Aghion and Morduch (2005), p. 34ff.
24 Armendáriz de Aghion and Morduch (2005), p. 14.
25 Robinson (2001), p. 9.
26 For a detailed overview, the interested reader is referred to Table A3 *Millennium Development Goals of the United Nations* in the Appendix.
27 International Year of Microcredit (2005a), p. 5.
28 Ledgerwood (1998), p. 268.
29 Stiglitz et al (2007), p. 1.
30 According to practitioners in the financial sector, the interest rate evinces zero elasticity, whilst econometric estimates speak of significant negative elasticity. Cf. Stiglitz et al (2007), p. 1.

In contrast, the World Bank and the International Monetary Fund (IMF) choose a holistic approach to Microfinance to build *"[...] entire local financial markets that meet the diverse financial needs of poor people"*[31] globally. The support of equitable financial markets at country level and the empowerment of a strong Microfinance sector particularly in developing and emerging markets is the clear goal of the World Bank Group's work and its affiliated institutions to realise and secure "*universal access to finance"*.[32] Hence, Microfinance embraces the wide range of commercially known financial services – credit, deposit services and savings, and insurances – enabling the underprivileged to invest in (family-run) enterprises and self-run businesses, to build up purchasing power, to supply better nutrition whilst improving living standards especially health and education standards.[33] The International Finance Corporation (IFC) accounts as the major investor in Microfinance among the members of the World Bank Group because the IFC doubles its investment volume to reach a Microfinance portfolio worth USD 498 million by the financial year 2007.[34]
In accordance with the International Monetary Fund and the World Bank, the Organisation for Economic Co-operation and Development (OECD) simply states that Microfinance comprises credits, savings, and insurances targeted at low-income clients.[35] The numerous objectives of Microfinance Initiatives are demarcated to three goals by the OECD, which are

1. *"Improvement of self-sufficiency and welfare of entrepreneurs,*
2. *development of stable sources of income and full-time employment, and*
3. *the growth of Microbusinesses"*.[36]

The Microcredit Summit Campaign[37] reports the results of the evolvement of Microfinance in the time period from 1997 until 2002, shown in Table 1, delivering quantitative evidence of the importance of Microfinance as major tool in financial aid to poor and low-income households.[38]

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31 World Bank (2009a).
32 World Bank (2009a).
33 International Finance Corporation, (2009).
34 World Bank (2009a).
35 Cf. Organisation for Economic Co-operation and Development (2006), p. 1.
36 Organisation for Economic Co-operation and Development (1996), p. 14.
37 "*The Microcredit Summit Campaign is a project of the RESULTS Educational Fund, a U.S.-based grassroots advocacy Organisation committed to ending hunger and poverty. The first Microcredit Summit, held February 2-4, 1997, gathered more than 2,900 people from 137 countries in Washington, DC."* Microcredit Summit Campaign (2009).
38 Cf. Source: Daley-Harris (2003), p. 5.

End of Year	Total Numbers of Institutions	Total Number of Clients reached (millions)	Number of *Poor* Clients reported (millions)
1997	618	13.5	7.6
1998	925	20.9	12.2
1999	1,065	23.6	13.8
2000	1,567	30.7	19.3
2001	2,186	54.9	26.8
2002	2,572	67.6	41.6

Table 1: Growth of Microfinance as reported to the Microcredit Summit Campaign.
Source: Daley-Harris (2003), p. 5.

By the end of 2002, 67.6 million Microfinance clients were reached world-wide through 2,572 Microfinance Institutions, with 41.6 million clients being categorized as poor. The Microcredit Summit Campaign defines the *Poor* as the population living below the poverty line of the examined geographical region or country. In this surveyed time period, the actual figures convey a steady increase of approximately 40 per cent per year implying continuous growth of the Microfinance sector in the future.[39]

In summary, Microfinance applies to credits, savings and insurances with the target of the poor and low-income population in developing, emerging and advanced economies.[40] Microfinance products and services are described in greater detail in the following Chapter to set the scene for the analytical study of Microfinance in developing, emerging and advanced countries, the core theme of this diploma thesis.

2.2 Microfinance Products and Services

From Village to Wall Street – the momentum of Microfinance shedding light on financial development and economic growth is prospering.[41] Financial development induces economic growth which in turn positively effects the eradication of poverty. Microfinance in its genesis form complies as a mode of financial development with the primary focus on the alleviation of poverty and inequality by providing financial services to the poor.[42] *"Microfinance offers all the transactions you would expect in any branch of finance: loans, deposits, money transfers, insurance. It is distinct only because it involves amounts of money so small that in the past*

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[39] Cf. Daley-Harris (2003), p. 1ff. And cf. Armendáriz de Aghion and Morduch (2005), p. 3.
[40] Cf. Microfinance Gateway (2009).
[41] Cf. Jansson (2001), p. 2ff.
[42] Cf. Barr (2005), p. 275ff.

conventional firms did not think them worthwhile. That is clearly changing".[43]. Today, financial institutions offer potential Microfinance clients a variety of services and products, *"first and foremost are financial services"*.[44] Though, the nature of targeted Microfinance customers, being poor without tangible assets, living in remote areas and being illiterate, necessitates the assessment of the demand of Microfinance, as illustrated in Figure 1.

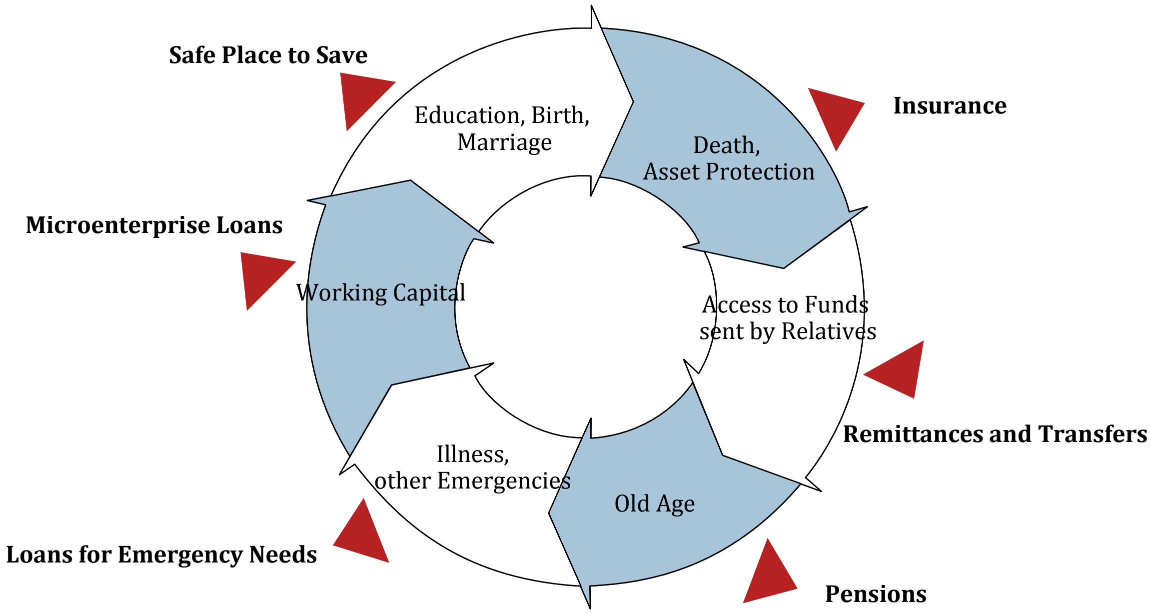

Figure 1: Assessment of the Demand for Microfinance.
Source: Helms (2006), p. 23.

These aligned financial products and services as integral part of self-sustainable Microfinance programmes contribute directly and at scale to poverty reduction. Primarily in developing and emerging countries, these tools offer the opportunity to continuously support the growth of financial markets *"while playing more limited, but useful, roles in poverty alleviation in [...] financially developed countries"*.[45] Further, countries experiencing bad governance apply Microfinance products and services to overcome the obstacles hindering other effective development strategies. In the long-run, the successful introduction of Microfinance activities thus provokes domestic financial reforms.[46]

43 Mercy Corps Global Envision, (2008a).
44 Ledgerwood (1998), p. 63.
45 Barr (2005), p. 281.
46 Cf. Barr (2005), p. 281.

2.2.1 Credit

Microcredits and Microloans are perceived as the prevalent products of Microfinance Institutions in developing, emerging and advanced economies. Access to adequate credits and loans offers poor and low-income households as well as Microenterprises[47] a considerable number of opportunities such as the ability to transact profitable investments, the adoption of contemporary technologies, the expansion of profitable business opportunities and their diversification, the increase of consumption, the ability to handle external shocks, the reduction of individual vulnerability, and mainly financial development and economic growth.[48] Barrier-free access to Microcredit and Microloans is the tangible and viable development strategy and its world-wide adaption to increase financial and economic performance. The Microcredit nexus clearly elucidates the inevitable importance of the access to lump sums for the poor.[49]

Baydas et al (1997) list the major characteristics of Microcredits as follows:

- Working capital and short-term loans,
- credit approval process based on character, rather than collateral,
- sequential credits, starting small and augmenting in size,
- application of the mechanism of group lending as substitute for omitted collateral,
- fast analysis of cash flows of entrepreneurs and individuals,
- fast credit disbursement and simplified credit processes,
- higher interest rates than commercial financial institutions to cover administrative expenditures of the respective Microfinance programme,
- fast credit collection processes,
- modest lending facilities located close to the targeted clients.
- employment of staff from local area, and
- computerisation for credit tracking.[50]

The International Year of Microfinance (2005) describes Microcredit as *"a small amount of money loaned to a client by a bank or other institution. Microcredit can be offered, often without collateral, to an individual or through group lending"*.[51]

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[47] *"A Microenterprise is generally a sole proprietorship that has fewer than five employees, has not had access to the commercial banking sector, and can initially utilize a loan of under USD 15,000. Most of the microenterprises have fewer than three employees, and the majority are operated by the owner alone. A microenterprise development program is generally run by a non-profit Organisation that provides any combination of credit, technical assistance, training and other business and personal assistance services to Microentrepreneurs."* Global Development Research Center (2008).

[48] Cf. Asian Development Bank (2008).

[49] Cf. Organisation of Economic Co-operation and Development (1996), p. 7ff.

[50] Cf. Baydas et al (1997).

[51] Global Development Research Center (2008a).

In comparison, ACCIÓN International[52] sums up that Microcredit is *"a part of the field of microfinance, microcredit is the provision of credit services to low-income entrepreneurs. Microcredit can also refer to the actual Microloan".*[53] Translated in actual figures, *"a Microloan is a very small loan to a microenterprise. Most Microloans are under USD 10,000, with an average loan size of USD 5,640. Loan terms range from one year to 4.75 years. Programs charge market rates of interest, from eight to 16 per cent. Loans are generally secured by non-traditional collateral, flexible collateral requirements or group guarantees".*[54]

Moreover, BancoSol's[55] established solidarity loan *Crédito Solidario "is given to micro entrepreneurs, in groups of three or four people, who share the responsibility for servicing the loan. Loans cannot exceed USD 2,000 per client, nor USD 6,000 per solidarity group".*[56]

Microfinance Institutions are forced to charge interest rates far above common market level to cover the relatively high transactions costs occurring during the processing of the small credit volume relative to conventional banks. "*The idea that the free market can help break debt cycles and foster income-generating market activities within poor communities did not gain acceptance until the establishment of the Grameen Bank*".[57] The Grameen Bank with its unique group-lending model advanced to become the globally well-known financial institution to give (Micro-) credit to the ultra-core poor.[58] The following example, presented in Box 1, explains in detail the elements of traditional Grameen Bank Microcredits.

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52 "*ACCION International was founded in 1961 to address the desperate poverty in Latin America's cities.*" ACCIÓN International (2007).

53 Global Development Research Center (2008a).

54 Global Development Research Center (2008a).

55 BancoSol S.A. was established in 1992 as commercial bank. "*After over sixteen years in business, BancoSol has disbursed more than US$ 1,600 million to more than a 1,3 million micro-enterprise projects. Currently, the Bank has more than 150,000 clients who represent a total loan portfolio more than US$ 270 million. Additionally, BancoSol has almost US$ 230 million total deposits disbursed in more than 175,000 clients The Bank is present in seven important cities of the country (La Paz, Cochabamba, Santa Cruz, Oruro, Tarija, Potosí and Sucre) through a network of 56 branches.*" BancoSol (2005a).

56 BancoSol (2005b).

57 Hassan (2002), p. 205.

58 Cf. Wörz (1999), p. 1.

"*Typical microcredit lending in Bangladesh follows the traditional Grameen model: it is targeted at the landless/assetless; borrowers are part of a 15-20 person group, which meets regularly; women are given preference and make up 90% of the total borrowers; loans are collateral free and usually have a maturity of 50 weeks with weekly repayments; mandatory saving is an integral part of the program; and financial transactions are recorded in individual passbooks in the presence of the entire group to enhance transparency and self-monitoring. Microfinance institutions (MFIs) provide initially a small loan (about USD 25-75) and then follow-on loans of increasing amounts as long as repayment of the earlier loan is satisfactory. This stepped lending feature is essential to the excellent repayment performance (most MFIs report more than 95% cumulative repayment rates). The basic premise is that the poor need continuous access to credit for 8-10 years to accumulate enough savings/assets to escape poverty. MFIs usually have upper loan limits, but a few have a policy of "graduating" borrowers from their microfinance program to individual microenterprise loans, because clients who have been in the system for several years represent better credit risks despite the larger loan sizes. Borrowers are free to choose the activity financed by the loan. Activities are mostly rural and nonfarm in nature with short duration and daily sales, such as poultry farming, petty trade and shop keeping, cattle rearing, or handicraft.*"

Box 1: Elements of Traditional Grameen-style Microcredit.
Source: Charitonenko and Rahman (2002), p. 13. Cf. World Bank (1999), p. 1.

Whilst, the Global Development Research Center (GDRC) critically associates Microcredit with *"[...] the title of F. A. J. Bouman's 1990 book 'Small, Short, and Unsecured' – microfinance is the provision of very small loans that are repaid within the short periods of time, and is essentially used by low income individuals and households who have few assets that can be used as collateral".*[59]

The MicroBanking Bulletin conducted a survey in 2002 of 147 Microcredit programmes with regard to the financial performance relative to the utilised lending methodology. The result of of the study and its comparative data are listed in Table 2.

[59] Srinivas (2001), p. 1. And Global Development Research Center (2008b).

	Individual	Solidarity Group	Village Banks
Definition	1 borrower	3-9 borrowers per group	10 or more borrowers per group
Observations	73	47	27
Scale			
Number of borrowers	9,610	47,884	16,163
Average loan size	USD 973	USD 371	USD 136
Outreach			
Average loan size/ GNP per capita (%)	88	46	20
Fraction female (%)	46	73	89
Financial performance			
Return on assets (%)	-1.2	-4.1	-7.2
Return on equity (%)	0.6	-12.5	-10.7
Operational self-sufficiency ratio (%)	121	102	107
Financial self-sufficiency ratio (%)	102	89	89
Portfolio yield (real, %)	21	30	49
Portfolio at risk > 90 days	3.7	3.6	3.5
Efficiency			
Operating expense/ Loan portfolio (%)	20	37	61
Cost per borrower (USD)	155	93	62
Number of borrowers/ total staff	147	155	160
Number of borrowers/ Loan officer	508	356	309

Table 2: Financial Performance Comparisons by Lending Methodology.
Source: Armendáriz de Aghion and Morduch (2005), p. 121. Cf. MicroBanking Bulletin (2002), Table Aa.

From the total of 147 observations, 73 programmes are categorised as individual lending programmes compared to 47 lending schemes accounting as group-lending with Grameen-type groups comprising three to nine Microcredit borrowers with joint liability and 27 approaches of village banking with *"neighbours coming together in financial support groups called Village Banks"*[60] being jointly responsible for the credit repayment.[61] Microlending methodologies with the focus on individuals as credit takers clearly differ from lending formats by solidarity groups and village banks. The average loan size confirms the assumption that Microlenders tend to be smaller in size and serve better-off clients. Additionally, the self-sufficiency ratio of 102 per cent in comparison to 89 per cent proxies the self-reliance of the individual lending methodology. Whilst individual Microlenders hold an average of 46 per cent of women as clientele relative to 73 per cent for group-lending

60 Foundation for International Community Assistance International (-).
61 Cf. Hassan (2002), p. 205ff.

approaches and 89 per cent for village banks, and thus serve a smaller population of female clients, the respective portfolio yield indicates the interest rates and fees charged resulting in lower values for individual lenders (21 per cent), and higher values for group lenders (30 per cent) as well as for village banks (49 per cent). The efficiency of the lending method is expressed by the ratio operating expense by loan portfolio: Mircolenders devote 20 cents of each monetary unit credited to operational costs versus 37 cents of purpose assignment for group lenders and 61 per cent at village banking.[62]

The evaluation of the MicroBanking Bulletin's (2002) comparative data leads to the conclusion that Grameen-type group-lending and village banking approaches evince the tendency to offer their array of financial products and services to rather poorer clients while coevally facing increased costs of operations compared to the credit amount. Recent developments in lending methodologies suggest that Microlenders offer mature and increasingly diversified products resulting in the service for better-off clientele and appreciable cost reduction. Nevertheless, critics point out that Microlending particularly in remote and rural areas distinguished by heterogeneous populations, higher rates of illiteracy and social divisions, implicate high costs of peer group monitoring and the difficulty of social punishment on non-compliance.[63] *"Individual-lending approaches may thus be critical in serving some very poor areas as well."*[64]

2.2.2 Savings

The transition from Microcredit to Microfinance reflects more than basic terminology but a severe change in realisation that poor and low-income households benefit from other financial services than credit. The launch of Savings services to the poor, even though often disregarded as *"the forgotten half of rural finance"*[65], effect the unilateral renunciation from Microcredits and Microloans on offer.[66] Savings facilities broaden the access for the Poor among the economically active poor to financial services and hold advantages to enhance financial development and economic growth. Above all, Savings enable poor and low-income households to generate wealth necessary for consumption. Due to the return on investment, Savings lead to additional income, meaning growth of capital essential to safeguard against unanticipated incidences. Moreover, the sensitivity of the poor to external shocks decreases when depositing money in Savings accounts. As a consequence thereof the demand of

62 Cf. Armendáriz de Aghion and Morduch (2005), p. 120. And cf. MicroBanking Bulletin (2002).
63 Cf. Armendáriz de Aghion and Morduch (2005), p. 120.
64 Armendáriz de Aghion and Morduch (2005), p. 120.
65 Robinson (2001), p. 30.
66 Cf. Vonderlack and Schreiner (2001), p. 1.

borrowing from financial institutions adding high interest rates is reduced.[67] This fact distinctly indicates that Microcredits imply more risks than Microsavings.[68] And *"although not all people are creditworthy or want debt, all people are depositworthy and want assets"*[69] to increase their economic performance in everyday life.

The CGAP distinguishes Savings services in three categories which are *Saving up*, *Saving down* and *Saving through*.[70] Saving up at first glance appears to be the obvious Savings services tool. In conventional Savings mechanism, the accumulated deposited sum of money is safely kept for future expenditure. However, poor and low-income households evince the deficiency of safe and reliable opportunities to utilise the method of Saving up. The loophole often lies in the acceptance of the payment of interest rates and administrative fees high above market level to save safely.[71] In contrast, Saving down enables the underprivileged to save safely through the advancement of cash against the household's future income, i.e. loan repayment.[72] MFIs as well as reciprocal lending schemes implemented successfully the Saving down lending mechanism.[73] *"In this third case Savings are made on a continuous and regular basis, and a matching lump sum is made available at some point in time during this flow of savings deposits"*.[74] Thus, Saving through provides easy access to the basis of all financial services, even to the ultra-core poor.[75]

Contrasting, the Global Development Research Center disclosed the following definition of Savings services for the poor accordant with the International Year of Microcredit 2005 as *"Microsavings are deposit services that allow people to store small amounts of money for future use, often without minimum balance requirements. Savings accounts allow households to save small amounts of money to meet unexpected expenses and plan for future investments such as education and old age"*.[76]

Robinson (2001) adds that *"Some households start extremely poor and gain employment. They may then open small savings accounts. Some households with savings accounts then add small loans. […]. Some clients are able to expand and diversify their enterprises and to qualify for larger loans"*.[77]

To visualise actual figures, Baydas et al (1997) cite *"most banks reported having savings accounts with small balances under USD 500"*.[78]

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67 Cf. Asian Development Bank (2008). And cf. Mutesasira et al (1999), III.
68 Cf. Vonderlack and Schreiner (2001), p. 3.
69 Vonderlack and Schreiner (2001), p. 3.
70 Cf. Consultative Group to Assist the Poor (2000), p. 1ff.
71 Cf. Rutherford (1999), p. 7f.
72 Cf. Rutherford (1999), p. 8.
73 Cf. Consultative Group to Assist the Poor (2000), p. 5.
74 Cf. Rutherford (1999), p. 8.
75 Cf. Consultative Group to Assist the Poor (2000), p. 5.
76 Global Development Research Center (2008a).
77 Robinson (2001). Cf. World Bank (2009b).
78 Baydas et al (1997), p. 18.

The co-operative SafeSave[79] combines lending schemes from the formal and the informal financial sector to deliver a suitable set of financial products to its customers in the slums of Dhaka, Bangladesh.[80] The customer base embraces currently over 7,000 people with access to SafeSave Microsavings. At SafeSave, "*clients may deposit as little as Tk. 1(USD 0.015) when the collector calls at their house each day. Accounts with balances above Tk. 1,000 (USD 15) earn 6 per cent interest. Clients may withdraw up to Tk. 500 per day (USD 7.50) at their doorstep, or up to Tk. 5,000 per day (USD 75) at the branch office within a guaranteed maximum of 10 minutes (larger amounts within 24 hours)".*[81] The necessity of voluntary Microsavings for the economically active poor is explained by the conversation of a couple, a SafeSave representative and a foreign visitor in Box 2.

"Visitor:	*How much do you need to live on each day – For the five of you in the household?*
Husband:	*We need Tk. 50 (USD 1.11)*
Visitor:	*How much do you earn in your work breaking breaks?*
Husband:	*Usually about Tk. 35.00 (USD 0.78).*
Visitor:	*But in your passbook it says you save Tk. 5.00 (USD 0.11) most days! How can you do that? Why?*
Wife:	*What do you mean?*
SafeSave Representative:	*He means if you need Tk. 50.00 a day but you get only 35, then how do you manage?*
Wife:	*We go hungry. What else could we do? What does he say we should do?*
SafeSave Representative:	*But he wants to know why you save.*
Husband:	*For our future. Everyone needs to think about their future. Don't we have a daughter and two grandchildren?"*

Box 2: Voluntary Savings Services – Conversation in Dhaka/Bangladesh in 1997.
Source: Robinson (2001), p. 38f.

The Bank Rakyat Indonesia (BRI)[82] reveals on a larger scale a Microclient base of more than 25 million depositors.[83] The Microsavings programme of the BRI Unit Desa tender passbook accounts similar to conventional Savings bank books with positive interest rates on deposits, no requirement for a minimum balance, and barrier-free access to money withdrawals. Microdeposits classify with additional advantages, namely low transaction costs, and the

[79] "*SafeSave was co-founded in 1996 by Stuart Rutherford, a microfinance enthusiast, and Rabeya Islam, a Dhaka housewife with years of experience of running savings-and-loan clubs among her poor neighbours."*
And, "*SafeSave provides reliable basic banking services, profitably, to poor and very poor men, women and children, in Dhaka, the capital of Bangladesh."* SafeSave (2008).

[80] Cf. Vonderlack and Schreiner (2001), p. 11.

[81] SafeSave (2008).

[82] *"PT Bank Rakyat Indonesia (Persero) Tbk. is the oldest bank in Indonesia. Its history was started back on 16 December 1895, […]."* And, *"in 2003, the Government of Indonesia decided to sell off 30% of its share in the Bank and the Bank became public with the current name."* Bank Rakyat Indonesia (2008).

[83] Cf. Armendáriz de Aghion and Morduch (2005), p. 149.

explicit insurance of the balances by the Indonesian government.[84] The following, operational features of Microdeposits programme important for Microsavers, are mentionable:

- The location of depositories at village level,
- simplified administration and Savings procedures relative to conventional financial institutions, and
- stimulation to save (e.g. through lotteries).[85]

The propensity to establish Savings rises relative to the household's income.[86] The survey of the BRI conducted in the year 2000 examined 201 Microsavings customers of the bank which account as low-income households. The interrogated clients split their Savings between business uses, nonbusiness consumption, finance and assets. Table 3 shows the results of the classification of utilisation for Savings within the BRI clientele.[87]

	Percentage reporting as primary Use
Business uses	16
Working capital	13
Finance new business	0
Buy building, equipment	2
Buy vehicle	1
Nonbusiness consumption	35
School fees	14
Medical expenses	3
Household consumption	13
Purchase jewellery	0
Wedding/funeral/etc.	2
Religious holiday	3
Finance and assets	6
Purchase land	1
Purchase housing	5
Pay loan	0
Other use or not applicable	39

Table 3: Reported Uses for Savings of 201 BRI clients.
Source: Armendáriz de Aghion and Morduch (2005), p. 151.[88]

Savings for working capital reached 13 per cent whereas none of the 201 respondents finance a new business with their Microdeposits at the Bank Raykat Indonesia. As many interviewees indicate to utilise 13 per cent for future household consumption and 14 per cent for education, i.e. payment of school fees. But only 6 per cent name the building up of household's

84 Cf. Vonderlack and Schreiner (2001), p. 11f.
85 Cf. Baydas et al (1997), p. 18.
86 Cf. World Bank (2009b).
87 Cf. Armendáriz de Aghion and Morduch (2005), p. 150f.
88 "*2000 Survey of 201 clients. Calculations by the authors. The sample was drawn from representing regions; results are not weighted to reflect different population levels across sampling units.*" Armendáriz de Aghion and Morduch (2005), p. 151.

finance and assets as prevalent use of the Savings. Armendáriz de Aghion and Morduch (2005) reach the conclusion that *"Savings are mainly used to facilitate large, lumpy expenditures occurring in the short or medium term, but they are also used for long-term needs".*[89]

2.2.3 Insurance

Churchill (2006) describes the recent innovation in Microfinance, namely Microinsurance, as *"[…] the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved".*[90] The push towards the diversification of Microfinance products and services involves Microinsurances since the demand among potential insurants for loan, health or crop insurance programmes is vastly increasing.[91] The broadened access to financial services and products in the field of Microfinance initiated by the supply of insurances to poor and low-income households world-wide leads to the reduction of risks and potential losses for the individual insurant. Again, the devastating impact of external shocks on the prescribed target group decreases and in turn, the investment volume increases. As a result, Microinsurance services prevent the intended populations from slipping further into the poverty trap and lead to reduction in consumption volatility.[92]

The Microinsurance Innovation Facility of the International Labour Organization (ILO)[93] regards Microinsurance as *"provision of insurance to low-income households and to micro and small enterprises"*[94] and therefore enlarges the target group of non-commercial and commercial insurance companies.[95]

Allianz, a leading global insurance company, and the United Nations Development Programme (UNDP) and the German Agency For Technical Cooperation (Gesellschaft für Technische Zusammenarbeit, GTZ) launched an initiative on Microinsurance in Asia-Pacific[96] whereas *"Micro-insurance is protection of poor people and their families against specific perils like death, illness, weather catastrophes, etc. In principle, micro-insurance works like any typical insurance business".*[97] Relative to common insurances offered on the market, Allianz formally

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89 Armendáriz de Aghion and Morduch (2005), p. 150f.
90 Churchill (2006), p. 12.
91 Cf. Lederwood (1998), p. 74. And cf. Armendáriz de Aghion and Morduch (2005), p. 166.
92 Cf. Asian Development Bank (2008).
93 "*The Microinsurance Innovation Facility was established in 2008 to support the extension of insurance to millions of low-income people in the developing world, with the overall aim of reducing their vulnerability to risk.*" International Labour Organization (2008a).
94 International Labour Organization (2008b).
95 International Labour Organization (2008b).
96 Cf. Churchill (2006), p. 13.
97 Allianz (2009).

puts emphasis on the differences of Microinsurances. Group insurances enable the pooling of numerous Microinsurance customers under one contract. Accordingly, Allianz India covers a total of 42,000 insurants with one single contract. Furthermore, the operation of an intermediary is necessary between the conventional insurance company and the Microinsurance clientele, such as Microfinance Institutions or Nongovernmental Organisations (NGOs) to monitor and secure the insurance procedure. The single Microinsurance product on offer is a Microlife Insurance Policy with the yearly expense of EUR 0.87 and coverage of EUR 370.00 in case of death of the insured.[98]

Another illustrative example of Microinsurance is presented in Box 3 below.

"Gono Bima (Popular Insurance) is subsidiary of Delta Insurance, a private insurance company in Bangladesh. It markets a life insurance product that has been designed to reach many of the poor and has clearly benefited from the experience of MFIs like the Grameen Bank. The product itself is simple. It is a 10-year contractual savings account with fixed monthly premium payments leading to a one lump sum payment at maturity, with accumulated interest. The insurance element is provided by the guarantee that a full pay-out will be made if the insured person dies during the term. [...] The smallest monthly premium accepted is about USD 2.00. The office then relends the premium income to its customers in microloans with terms similar to the Grameen Bank. [...] At the end of 2001, there were more than half a million microinsurance clients and more than 100,000 microcredit clients in the program, more than 50% of whom are women. [...]."

Box 3: Delta Insurance's Microinsurance Product.
Source: Charitonenko and Rahman (2002), p. 16. Cf. Women's World Banking (2001).

The theoretical concept of Microinsurance is defined by the partner-agent model proving that the proper design of Microinsurance schemes are assessed as a valuable financial tool for poor and low-income households.[99] *"This model clearly has the potential to be beneficial to all parties and can indeed provide a 'win-win-win' situation"*[100] for commercial insurance companies, Microfinance Institutions and NGOs acting as intermediaries, and the targeted low-income population. Nevertheless, the partner-agent model implies similar disadvantages as the principal-agent model, namely adverse selection and moral hazard.[101]

Although, the agents, i.e. MFIs and NGOs, typically limit their Microinsurance portfolio to tailored insurances products according to the demand of their customers, the direct financial benefit from the insurance sales for the partner, remarkably the insurance company, has to be cost covering.[102] The nongovernment and nonprofit organisation Activists for Social

98 Cf. Allianz (2009).
99 Cf. Churchill and Cohen (2006), p. 174. And cf. McCord (2006), p. 357ff.
100 McCord (2006), p. 359.
101 Cf. Armendáriz de Aghion and Morduch (2005), p. 166. For detailed information, the interested reader is referred to Chapter 3 *Models of Financial Development and Economic Growth*.
102 Cf. McCord (2006), p. 366.

Alternatives (ASA)[103] evaluates that the operational cost of the provision of Mircoinsurances aggregate Rs. 80.84 (USD 1.80) per policy per year.[104] The profitability of the organisation's Microinsurances on the basis of the cost per policy is assessed in Table 4 for the financial year 2005.

Insurance Company	Premium received from client (Rs.)	Premium retained to cover expenses (Rs.)	Number of Policies	Profit or loss on all policies (USD)
AMP-Sanmar	125	89	26,444	4,796
Allianz Bajaj	125	89	18,218	3,304
Max New York	125	75	8,348	-1,083
Total			53,010	7,017

Table 4: Activists for Social Alternatives' profit/loss per policy 2005.
Source: McCord (2006), p. 368.

The premium received from its client is standardised at Rs. 125 (USD 2,78) and compulsory applicable for all three policies offered by ASA. Most notable, the premium retained per policy for the insurance company *Max New York* with Rs. 75 differs, resulting in loss as depicted in the last column. But the comparison of the cost per policy to the premium retained per policy, Rs. 89 for AMP-Sanmar and Allianz Bajaj, clearly states profit. The yearly published balance sheet reflects the importance for the agents to work entrepreneurially efficient to secure the lasting supply of Microinsurances.[105]

Despite all obstacles, a *"growing movement within Microfinance is pushing to provide insurance on top of loans and deposit services"*.[106]

2.3 Distinctive Features of Microfinance

Microfinance, with its products and services introduced in Chapter 2.2, reveals distinctive features which solidly affect the key objectives of its core scheme. These numerous goals primarily address the enhancement of financial performance and the increase of social impact likewise. The widespread approach to Microfinance amongst economists and Microfinance practitioners is determined by the fact of existing trade-offs between social

[103] *"The Activists for Social Alternatives (ASA) is a not-for-profit non-governmental organisation (NGO) registered as a public charitable trust, working for the development of poor in the drought prone, poverty ridden area of central Tamilnadu (TN)."* Activists for Social Alternatives (-).

[104] Cf. McCord (2006), p. 367.

[105] Cf. McCord (2006), p. 367.

[106] Armendáriz de Aghion and Morduch (2005), p. 166.

benefits and financial objectives.[107] In contrast to the *"win-win-win situation"*[108] proclaimed, the adapted critical triangle of Microfinance, pictured in Figure 2, emphasises the adequate translation from financial to social performance goals in the Microfinance conceptual framework.[109]

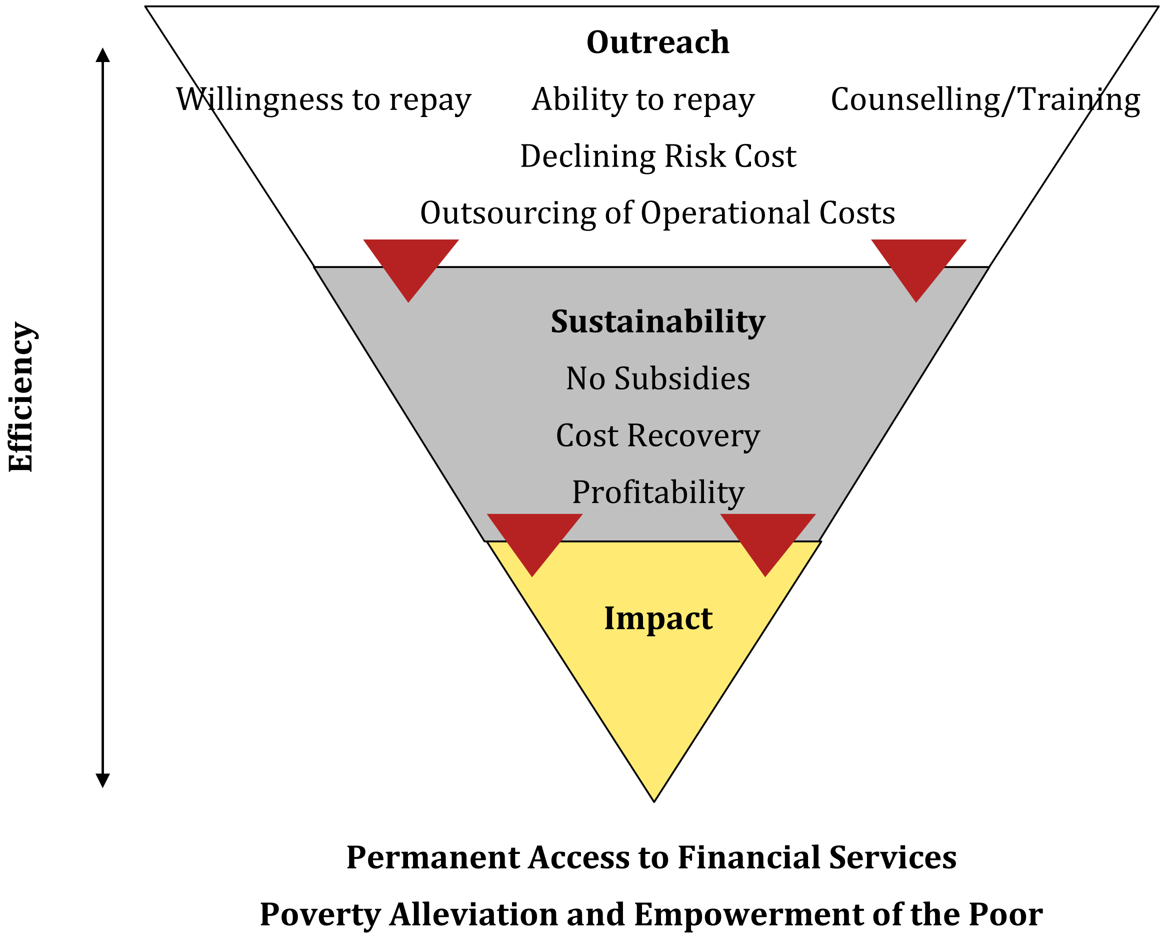

Figure 2: Elements of Microbanking.
Source: Adapted depiction. Cf. Kreuz (2006), p. 8.

The key objective of Microfinance is poverty allevation. The inequality in income influences the pace at which financial development and economic growth lead to lasting decrease in poverty and inequality.[110] *"Growth is less efficient in lowering poverty levels in countries with high initial inequality or in which the distributional pattern of growth favours the nonpoor. In the late 1990s the term pro-poor growth*[111] *became popular as economists recognized that accelerating poverty reduction required both more rapid growth and lower inequality".*[112]

107 Cf. Simanowitz (2007), p. 60.
108 McCord (2006), p. 359. For detailed information please refer to Chapter 2.2.3 *Insurance.*
109 Cf. Simanowitz (2007), p. 60.
110 Cf. Cord (2007), p. 1.
111 *"The absolute definition of pro-poor growth focuses on accelerating the rate of income growth of the poor and thus the rate of poverty reduction."* Cord (2007), p. 24.
112 Cord (2007), p. 1.

Moreover, barrier-free access to financial services is thought to be closely linked to women's empowerment.[113]

Macroeconomics, sectoral policy and the socioeconomic environment set the framework for the impact of Microfinance, financial sustainability and the outreach to poor and low-income households as the core part of the critical triangle of Microfinance.[114] The impact of Microfinance in developing, emerging and advanced economies is analysed in Chapter 4 in detail delivering inside knowledge on the status-quo and future opportunities of globally and regionally operating Microfinance programmes. The advocates of Microfinance stress that those financially self-sufficient institutions adopting *"the rational of good banking"*[115] explicitly meet the prevalent Microfinance goal of poverty alleviation, termed as the proposition of the *"win-win situation"*[116] for viable financial institutions and their customers. The avoidance of subsidies in the long-run and profitable operations contribute to the outreach to poor and low-income populations and limits constraints imposed by donor or government support, *"the key paradigm being that low income households need to have approach to credit [...]"*.[117] Whilst the measurement of efficiency alongside the critical triangle of Microfinance is interpreted as the parenthesis. The shift in focus from financial to social objectives, putting the social mission of Microfinance Institutions into practice, amplifies the benefits of Microfinance on its path towards commercialisation.[118]

2.3.1 Efficiency

Efficiency implies the risks even sound Microfinance programmes providing financial products and services to poor and low-income populations through sustainable institutions have to antagonise. The decisive role of Microfinance in economic growth and financial development inevitably requires operational efficiency of the stakeholders involved. Precisely, financial institutions need to establish a solid base to operate financially self-sufficient without the reliance on public or private subsidisation. Operating on market principles to serve the poor characterises the difference between Microfinance and conventional development aid being associated with substantial resource transfers.[119] Foremost, coverage of cost is the key permanence in the process of credit approval in Microfinance since Microcredits relative to conventional credits granted by financial

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[113] Cf. Jansen and Pippard (1998), p. 103ff.
[114] Cf. Khawari (2004), p. 8.
[115] Khawari (2004), p. 26.
[116] Simanowitz (2007), p. 60.
[117] Khawari (2004), p. 26f.
[118] Cf. von Pischke (2008), p. 1.
[119] Cf. Balkenhol (2007), p. 4ff.

institutions of the formal sector require disproportionally high costs even though the credit volume is magnificently smaller. These costs which MFIs typically defray without generating profit at large are:

- Personnel (interview, consulting, employee training, travel expenses),
- administration (credit procurement, accounting and audit),
- and miscellaneous (hedge of inflation rate, monetary reserves for unpaid loans) costs.[120]

The efficient allocation of resources is the mandatory step to sustainable cost coverage and the reduction of transactions costs along the credit granting procedure.[121] L'Association pour le Droit à l'Initiative Economique (ADIE)[122] estimates the total sums for the Microcredit approval procedure across continental Europe to EUR 1,982 covering transaction costs and the cost for risk coverage to EUR 305.[123] To achieve *"the promise of Microfinance"*[124], the shift from financially dependant Microfinance Institutions with limited products and services on offer to financially efficient operating institutions is obligatory. In the initial phase, Microfinance activities have previously been designed as publicly funded with operational costs and costs for the coverage of risk being covered by public subvention. In contrast, the operation of commercialised Microfinance solely depends on the grade of cost coverage, the efficiency of its lending model and above all on volume effects, namely the distribution of costs over a larger number of Microfinance clientele.[125]

The regular assessment of the efficiency of Microfinance operations is the prerequisite of both MFI frameworks to continuously improve the cost-effectiveness with efficiency referring to *"the cost of unit per output"*[126]. The periodic analysis of past financial performance and the evaluation of future scenarios deploying trend analysis deliver solid results for the quantification of organisational efficiency in the financial formal and informal sector alike.[127] Key ratios serve as performance indicators of Microfinance Institutions with current efficiency indicators listed in Table 5.

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[120] Cf. Vondrak et al (-), p. 39.
[121] Cf. Vondrak et al (-), p. 39.
[122] *"L'Aide est une association qui aide des personnes exclues du marché du travail et du système bancaire classique à créer leur entreprise et leur propre emploi grâce au microcrédit. Elle a été en 1989 par Maria Nowak en adaptant à la France le principe du microcrédit."* Association pour le Droit à l'Initiative Economique (-).
[123] Cf. Vondrak et al (-), p. 39.
[124] Balkenhol (2007), p. 4.
[125] Cf. Vondrak et al (-), p. 40.
[126] Ledgerwood (1998), p. 212.
[127] Cf. Ledgerwood (1998), p. 205.

Efficiency Indicators	Calculation	Unit
Operating expense/loan portfolio	Adjusted operating expense/ adjusted average gross loan portfolio	%
Personnel expense/loan portfolio	Adjusted personnel expense/ adjusted average gross loan portfolio	%
Average salary/GNP per capita	Adjusted average personnel expense/ GNP per capita	%
Cost per borrower	Adjusted operating expense/ adjusted average number of active borrowers	-
Cost per loan	Adjusted operating expense/ adjusted average number of loans	-

Table 5: Efficiency Indicators.
Source: Balkenhol (2007), p. 11. And MicroBanking Bulletin (2005), p. 49f.

These efficiency indicators reveal insides of the rate of financial performance of institutions active in Microfinance to cover their operational expenses and their optimal resource allocation. The MicroBanking Bulletin (2005) focuses on a set of five input-output ratios as performance measures considering the outputs *loan portfolio*, *GNP per capita* and *borrower*. The respective denominator is put in comparison with the operational expenditures as input factor. The construction of efficiency indicators is equally crucial for the performance results of profit-orientated institutions and public services units.[128] Thereby, Balkenhol (2007) identifies the three efficiency drivers of Microfinance Institutions, namely personnel costs and productivity, and average loan balances, taking the effect of constraints to pricing Microfinance products and services at the level of cost-effectiveness.[129]

Paul Grozen, Head of the United Nations Capital Development Fund (UNCDP), critically summarises *"Mikrofinanzierung kann nur dann als effizientes Instrument im Kampf gegen die Armut verwendet werden, wenn es in andere Entwicklungsaktivitäten integriert wird".*[130]

2.3.2 Outreach and Financial Sustainability

The core of the critical triangle of Microfinance focuses on the financial sustainability of Microfinance acitivities and the outreach to the poor. The simultaneous pursuit of these socially and financially objectives implies crucial trade-offs actuating the Microfinance Schism.[131] Empirical analyses of the viable balance between poverty outreach and financial sustainability deliver the evidence that Microfinance Institutions can reach scale whilst

[128] Cf. Balkenhol (2007), p. 10f.
[129] Balkenhol (2007), p. 16ff.
[130] Vondrak et al (-), p. 85.
[131] Cf. Khawari (2004), p. 26.

providing Microfinance services and products to poor and low-income households operating on cost-coverage level.[132]

In the first instance, outreach is defined as the number of Microfinance clients covered by the credit funds of the monitored financial institution.[133] However, the United Nations Capital Development Fund (2009) narrows the focus on the quality of outreach emphasising the quality of financial services, the scale and depth of outreach.[134] Increasingly reaching poor and low-income populations in numbers and depth evinces the negative implication of hazard to the Microfinance mechanism. The extension of outreach of Microfinance activities is feared to attract inadequate clientele with bad credit risks for the lending financial institution on the one hand, while, on the other hand, the increase in the number of borrowers and in credit volume results in augmenting operational and financial expenditures. The outreach to populations living in remote regions involves the upgrading of the dense net of branch offices causing additional permanent operational costs.[135] Additionally, targeting women as favourable customers of Microfinance programmes accounts as socially beneficial as well as operational efficient due to the fact that females are statistically more excluded from formal financial services and poorer than their male counterparts. The repayment rate of female Microcredit borrowers is higher relative to men, empowering the reliability of women.[136] Despite these facts, to maintain financial sustainability eventually is yet possible through the close focus on the financial management of the lending institution.[137]

The increasing commercialisation of Microfinance facilitates the request for financial sustainability of Microfinance. Downscaling commercial financial institutions eases the access to formal financial services and products for the underserved poor with capital market liberalisation leading to exceptional macroeconomic results in the context of financial development and economic growth.[138] The Sustainability Index (SI) suggests the ratio of income and costs to measure the financial sustainability of savings and credit operations in Microfinance.[139]

$$\textit{Sustainability Index} = \textit{Percentage of total costs covered by income}$$
$$= \frac{\textit{total income earned from credit programme during the period}}{\textit{total credit programme costs during period}} \; x\ 100.$$

Equation 1: Sustainability Index.
Source: Johnson and Rogaly (1997), p. 65.

132 Cf. Barr (2005), p. 282. And cf. Simanowitz (2007), p. 62.
133 Cf. Khawari (2004), p. 7.
134 Cf. United Nations Capital Development Fund (-).
135 Cf. Khawari (2004), p. 7.
136 Simanowitz (2007), p. 62.
137 Cf. Khawari (2004), p. 7.
138 Cf. von Pischke (2008), p. 1f.
139 Cf. Johnson and Rogaly (1997), p. 65.

The quantification of financial sustainability as of Equation 1 shows that sustainable Microfinance is neither attached to particular lending models and country regions nor to the level of poverty of the surveyed populations. Financial self-sufficiency and non-subsidisation contain the opportunity for MFIs to attract capital from the private sector despite high risks.[140] Khawari (2004) primarily identifies high transactions costs, the high rate of mortality of small and medium sized enterprises (SMEs) and asymmetric information as key obstacles to the success of attracting private capital. Thus, current Microfinance schemes are dependent on public funds and government or donor subsidies to operate on cost-effectiveness level.[141] Though, *"such disbursements of public funds are only justified if the discounted social welfare of public investment in microfinance over a longer period of time are more than its social costs and the opportunity costs of the resources used".*[142] In this context, financially unsustainable Microfinance Institutions shuffle off operational costs to their customers to a far greater extent than the gains from the participation in Microfinance programmes offer instantly. The permanent relationship between the financial performance of MFIs and outreach to the poor induces a concept of incentives and constraints shedding light on operational efficiency and cost-effectiveness.[143] Therefore, improving financial sustainability, and thus improving social welfare, enables against common belief the mode *banking of the unbankable* at good credit risk.[144] *"Overall, the findings suggest that favorable macroeconomic conditions, managed growth, deposit mobilization, and cost control, in combination, are among the key factors that contribute to the success and sustainability of many microfinanceinstitutions."*[145]

2.3.3 Poverty Alleviation

"*World's income distribution gives a very telling story. Ninety four per cent of the world income goes to 40 per cent of the population while sixty per cent of people live on only 6 per cent of world income. Half of the world population lives on two dollars a day. Over one billion people live on less than a dollar a day."*[146] The self-imposed promise of Microfinance to deliver on pro-poor growth implies the major objective of poverty alleviation. The assessment of

[140] Cf. Barr (2005), p. 282. And cf. Ledgerwood (1998), p. 3.
[141] Cf. Khawari (2004), p. 7.
[142] Khawari (2004), p. 7.
[143] Cf. Khawari (2004), p. 7.
[144] Cf. Robinson (2002), xxxi.
[145] Ledgerwood (1998), p. 3.
[146] Yunus (2006).

qualitative and quantitative input on poverty is the prerequisite for the suitable design of Microfinance schemes to effectually serve the poor. Thus, it is vital for the implementation of effective Microfinance activities to fully understand the definiton of poverty and its measurement capabilities.

The World Bank states concisely in its *World Development Report* (WDR) of the year 1990 that poverty is *"[…] the inability to attain a minimum standard of living"*.[147]

In contrast, Hemmer and Wilhelm (2000) present the broader definition of poverty of the Canadian International Development Agency (CIDA) which applies a multidimensional framework of political and economic aspects resulting in *"Poverty is deprivation and powerlessness. It is the lack of sufficient assets and income to satisfy basic human needs for food, water, shelter and clothing, it is the lack of education, skills or tools to acquire income and assets. And it is the lack of ability or power to change the situation"*.[148]

According to Rutherford (1999), governments choose proxies for income levels to define poverty, i.e. per capita daily nutritional consumption with the poverty line defined as the needed income for one person to intake 2,112 calories per day.[149] This absolute poverty line, reflecting the minimal standard of living necessary for existence[150], is utilised to monitor global poverty trends and to enable cross-regional data analyses. Currently, the poverty line is defined at the USD 1.00 a day threshold with USD 0.75 per day purchasing power marking extreme and ultra-core poverty.[151] The estimation amounts to 1.2 billion people living on less than USD 1.00 a day, adjusted for purchasing power parity (PPP).[152] Therefore, poverty as means of low-income level per household entails that poverty reduction is assessed through the number of households that actually cross this defined line and being promoted out of poverty in the long run.[153]

On the contrary, critics argue that poverty is not only characterised by the lack of income but by powerlessness and vulnerability to fluctuations in income of the household.[154] Accordingly, financial development and economic growth linked with the improvement of standards in health and education account as the main task of pro-poor growth.[155] This holistic approach encompasses the basic needs of human beings, for example adequate nutrition, water, clothing, and shelter, and in the framework of Microfinance access to credit, the possibility to participate in the political process, security, and dignity.[156]

147 Hemmer and Wilhelm (2000), p. 10.
148 Hemmer and Wilhelm (2000), p. 10.
149 Cf. Rutherford (1999), p. 9.
150 Cf. Hemmer and Wilhelm (2000), p. 14.
151 Cf. Stern et al (2005), p. 5. And cf. Robinson (20019, p. 18.
152 Cf. Fernando (2006), p. 1.
153 Cf. Johnson and Rogaly (1997), p. 10.
154 Cf. Stern et al (2005), p. 16ff. And cf. Johnson and Rogaly (1997), p. 10.
155 Cf. Stern et al (2005), p. 16.
156 Cf. Hulme et al (2001), p. 6.

The knowledge of the effective employment of this multitude of tools is the solution to the eradication of poverty. The Poverty Alleviation Toolbox with a strong focus on the financial component in Figure 3 schematically shows the set of possible applications to reach the alleviation of poverty.[157]

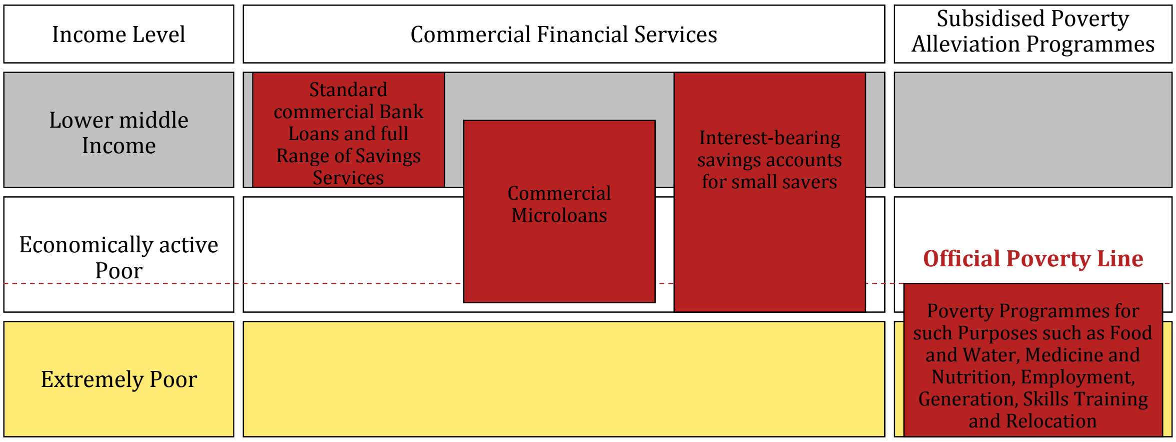

Figure 3: Financial Services in the Poverty Alleviation Toolbox.
Source: Robinson (2001), p. 21.

The Microcredit Summit Campaign relaunched their initial goal of the year 1997 to serve 100 million poor people with suitable and effective Microfinance products and services to 2015 with the focus on the outreach of Microfinance. It is scheduled to reach an additional amount of 75 million poor and low-income households and especially their female members by the end of 2015. Additionally, the campaign of the Microcredit Summit postulates the promotion of 100 million poor families above the USD 1.00 per day threshold and thus their movement out of poverty.[158]

The World Development Report on *Attacking Poverty: Opportunity, Empowerment, and Security* (2000) explicitly proposes a strategy for attacking poverty with three key principles:

1. *"Promoting opportunity by stimulating economic growth, making markets work better for poor people, and building up their assets,*
2. *facilitating empowerment by making state and social institutions more responsive to them, and*
3. *enhancing security by reducing vulnerability and risks of such events as wars, disease, economic crises, and natural disasters."*[159]

To assess the multidimensional concept of poverty, economists utilise money-metric approaches to quantify the deficiencies in income, expenditure or consumption enabling

157 Cf. Robinson (2001), p. 19ff.
158 Cf. Microcredit Summit Campaign (2009).
159 Klump and Cabera (2006), p. 13.

accurate measurements and comparisons. The approach of the USD 1.00 per day threshold categorising households as poor is applicable for cross-regional trend analyses with the poverty line being fixed at different levels according to the surveyed country. Because the specific income of one household classifies it as poor in one country while being considered as lower middle income in other countries.[160] This fact is particularly evident in the analysis of Microfinance and its impact assessment in developing, emerging, and advanced economies.[161]

The monetary indicators *Head Count Index* H and *Poverty Gap Index* PD calculate and aggregate poverty on the groundwork of the defined poverty line.[162]

The Head Count Index of Poverty measures the number of the poor q compared to the whole population surveyed n, as the ratio in Equation 2 illustrates.[163]

$$H = \frac{q}{n}$$

with

H = Head Count Index of Poverty (HI)

q = Number of Poor

n = Total Number of Population

Equation 2: Head Count Index of Poverty.
Source: Hemmer and Wilhelm (2000), p.15.

This simplified yardstick measures the number of the people with a standard of living below the set poverty line capacitating direct interpretation at high declarative level though neglecting the depth of poverty. Hence, economic analysts preferably deploy the *Poverty Gap Index* PD to describe the extent of poverty. The *Poverty Gap Index*, presented in Equation 3 is the sum over the number of poor q of the deviation from the poverty line z to the individual income of poor households y_i.[164]

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160 Cf. Hulme et al (2001), p. 6ff. And cf. Robinson (2001), p. 21.

161 For detailed information, the interested reader is referred to Chapter 3 *Models of Financial Development and Economic Growth*.

162 Cf. Hemmer and Wilhelm (2000), p.14f.

163 Cf. Hemmer and Wilhelm (2000), p.14f.

164 Cf. Hemmer and Wilhelm (2000), p.15.

$$PD = \sum_{i=1}^{q} (z - y_i)$$

with

PD = poverty gap index, depth of poverty, poverty deficit

z = Poverty Line

y_i = Income of the Poor Number i

q = Number of the Poor

Equation 3: Poverty Gap Index.
Source: Hemmer and Wilhelm (2000), p.15

The Poverty Gap Index reports the stipulated depth of poverty, i.e. the amount of financial aid necessary to alleviate poverty within the examined population in the context of periodic transfers.[165]

The complex phenomena of poverty and its long-run alleviation necessitate the broadened access of poor and low-income households to common financial services to extend the outreach to the targeted populations. Microfinance products and services offer the solution for this global problem if implemented efficiently because poorly designed Microfinance programmes are *"[...] not a panacea for poverty alleviation".*[166]

2.3.4 Empowerment of Women

The United Nations Development Programme list 70 per cent of the estimated 1.2 billion people who live on the USD 1.00 per day threshold as female. Moreover, the gender statistics database *Genderstats* of the World Bank[167] delivers quantitative evidence that the unemployment rate of women is higher in comparison to the men's rate and that the female labour force predominantly works in the informal and thus unorganised sector of the monitored countries on lower wage levels. Due to these facts, the assumption holds that the

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165 *"Since transfers usually lead to allocative distortions and thus to a reduction in economic output, the value of PD should rather be interpreted in the sense of 'minimum costs to eradicate poverty'."* Hemmer and Wilhelm (2000), p. 15f.

166 Ledgerwood (1998), p.7.

167 Cf. World Bank (2009c).

prioritisation of women's access to financial services is one key factor of Microfinance[168] *"[...] on the grounds that women are relatively more disadvantaged than men".*[169]

The United Nations Development Fund for Women (UNIFEM) points out that gender biases in the global labour markets are existing citing that in 2007 1.2 billion women formed the female labour force of paid work relative to 1.8 billion males, with 17 per cent of female workers settling with lower wages than men. This gender wage gap in formal employment indicates the accountability challenge women have to overcome to achieve long term equality in gender specific income.[170] The *Engendering Development Report* of the World Bank (2001) already pictures this status-quo of the female work forces around the globe in 2001 putting the fight against gender inequality on the agenda to eradicate poverty and promote adequate standards of living.[171]

Nevertheless, it is estimated that 14.2 million poor women have access to Microfinance services and products, solely the access to suitable financial services does not imply the automatism of female empowerment. However, financial contribution to the income of their families' households actuates rising confidence and independence of the world's Poor women.[172] According to Kabeer (1992), the demand of female empowerment does not *"usually emerge spontaneously from the conditions of subjugation due to the women's lack of awareness".*[173] The impact assessment of Microfinance programmes initiated by the Grameen Bank[174] and the Bangladesh Rural Advancement Committee (BRAC)[175] employ eight indicators to reveal the rate of empowerment of women:

1. *"Involvement in major household decisions,*
2. *relative freedom from domination by the family,*
3. *economic security,*
4. *ability to make smaller purchases,*
5. *ability to make lager purchases,*
6. *political and legal awareness,*
7. *participation in public protests and political campaigning, and*
8. *mobility."*[176]

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168 Cf. Cheston and Kuhn 2002, p. 8. Cf. Khawari (2004), p. 6.
169 Cheston and Kuhn 2002, p. 8. Cf. Khawari (2004), p. 6.
170 Cf. UNIFEM (2008), p. 54.
171 Cf. World Bank (2001), p. 1ff.
172 Cf. Cheston and Kuhn 2002, p. 4. Cf. Khawari (2004), p. 6.
173 Fernando (2006), p. 190.
174 For detailed information, the interested reader is referred to Chapter 3.3 *The Grassroots Approach of the Grameen Bank (1987).*
175 Cf. Halder (-), p. 1. And *"The Organisation was founded in 1972 as the Bangladesh Relief Assistance Committee in response to the humanitarian needs of thousands of refugees returning to their homes after Bangladesh's War of Independence. After initially establishing activities in relief and rehabilitation operations, BRAC shifted its focus in 1973 from relief to long-term community development, and was renamed the Bangladesh Rural Advancement Committee, or BRAC, as it is now known today."* Bangladesh Rural Advancement Committee (-).
176 Cf. Johnson and Rogaly (1997), p. 13.

The survey of eleven Microfinance Institutions by the US Agency for International Development (USAID) substantiates that Microfinance is a powerful tool for the empowerment of women even though setbacks, particularly concerning the rate of repayment of Microcredits, have to be overcome.[177]

"*In a US Agency for International Development (USAID) study of 11 successful MFIs, findings indicate that the Organisations studied do in fact reach large numbers of women, either because of direct policy decisions (Grameen Bank, Association of Dominicana para el Desarrollo de la Mujer, or ADOPEM) or because of a commonly held belief that women demonstrate stronger repayment performance and are more willing to form groups (the Kenya Rural Enterprise Programme).*
Among programs concentrating on women, motivations generally included the belief or experience that women are good credit risks and are more likely to have poor access to resources and services. Female participation rates in programs without gender preference are determined by the prevalence of women in client groups served and by features not studied that may impede or facilitate women's access. Some correlation exists between programs offering smaller loans and programs serving more women, but the correlation is far from perfect. For example, BancoSol has a relatively high average outstanding loan size, yet 71% of its clients are women."

Box 4: US Agency for International Development's Findings on Female Borrowers.
Source: Christian et al (1995), p. 16. Cf. Ledgerwood (1998), p. 38.

Besides the repayment of credits, women struggle with constraints hindering them to successfully avail the loans in the foundation and the development of their businesses and thus in generating income.[178] *"These obstacles are the outcome of existing gender relations."*[179] Johnson (2000) aggregates gender-based obstacles in Microfinance and Microenterprises in Table 6.

[177] Cf. Ledgerwood (1998), p. 38.
[178] Cf. Johnson (2000), p. 89f.
[179] Johnson (2000), p. 89f.

	Individual	Household	Wider community/ National context
Financial	Women lack access to banks/financial services in own right	Men's control over cash income Men's expenditure patterns	Perception of men as controllers of money/loans
Economic	Women undertake activities which produce low returns Women have a very heavy domestic workload	Gender division of labour Unequal access and control of land, labour and inputs Unequal control of joint household produce and income stream from this	Women underpaid for equal work, women locked in low-paid jobs Stereotypes of appropriate roles for women in the economy Women lack access to markets for inputs and outputs if mobility constrained because of social norms
Social/cultural	Women not literate or educated Girls' education not prioritised	Limited role for women in household decision making Polygamy results in conflict/competition and discrimination between wives Violence towards women	Banks and financial institutions do not view women as a potential market Women's mobility constrained by social norms
Political/legal	Women lack confidence to claim political/legal rights	Women lack legal rights to jointly owned household assets	Women's legal rights to household assets not defined in law or useful for collateral Women lack political positions to establish appropriate laws Women lack legal rights to land both traditional and formal

Table 6: Gender-based Obstacles in Microfinance and Microenterprises.
Source: Johnson (2000), p. 91.

Nevertheless, the empowerment paradigm has its advocates stressing the importance of female participation in capital and labour markets to improve social welfare. Gender disparities hinder financial development and economic growth with the alarming trend to be greatest amongst the poor. This alarming trend is most obvious in health and education matters.[180] The gender gap in the provision of educational opportunities leaves women

[180] Cf. World Bank (2001), p. 6.

notably disadvantaged. Input data on enrolment in primary and secondary education, and moreover adult illiteracy from the *Human Development Report* of the UNDP (1999) reflect the gender inequality with 19.8 per cent male illiterates relative to 37.1 women in developing countries.[181] *"Limited access to resources and weaker ability to generate income whether in self-employed activities or in wage employment constrain women's power to influence resource allocation and investment."* [182] Inferior work opportunities and the undercapitalisation of businesses run by women in managerial positions foster the underinvestment of female education. Further, the improvement of the female education level has positive effects on fertility, the rate of child mortality, diseases and malnutrition, eventually leading to the adoption of health-promoting behaviour.[183] The barriers to participate in the decision-making process in their environment, whether on local or national level, elucidates the poor socioeconomic position of women. Since it is proven that persistent gender inequality weakens the governance of countries provoking increasing corruption.[184] The *Millennium Development Goals Report* of the United Nations (2008) prioritises the promotion of women empowerment and gender equality with Microfinance being one effective tool of development strategies to achieve this goal by 2015.[185]

2.4 Supply and Demand of Microfinance

The understanding of the sufficient and suitable supply and demand of Microfinance in developing, emerging, and advanced countries is stressed by the approaches of institutionalsim and the welfarism characterising the Microfinance Schism. These two broadly different influential opinion leading camps conflict the alternative approach to threaten the major characterisitc of poverty alleviation in Microfinance.[186] Whilst the institutionists[187] focus on the founding of institutions providing financial services to the poor and the proposition of massive scale to end poverty *"given both the worldwide prevalence of poverty and the estimated demand for microfinance services"*.[188] The welfarists'[189] objective is the depth of outreach focusing on self-employment particularly of women and as a

181 Cf. Thirwall (2006), p. 226.
182 World Bank (2001), p. 6.
183 Cf. Thirwall (2006), p. 226. And cf. World Bank (2001), p. 6ff.
184 Cf. World Bank (2001), p. 4ff.
185 Cf. United Nations (2008), p. 16.
186 Cf. Woller et al (1999), p. 1ff.
187 Bank Rakyat Indonesia and BanoSol are considered as prime examples of the institutionist approach. Cf. Woller (1999), p. 2.
188 Woller et al (1999), p. 6.
189 The grassroots approach of the Grameen Bank and FINCA village banking are best-known examples of the welfarist approach. Cf. Woller et al (1999), p. 3.

consequence thereof empowerment of the female poor.[190] Thus, the demand of Microfinance and its products and services is obviously existent raising the question *"[…] if there is high demand, why has the demand not been met?"*[191]

The assumption of perfect competition balancing supply and demand on capital markets through the pricing mechanism does not hold enforcing the undersupply of credit, consequently credit rationing and exclusion of the poor from financial services. Microfinance meets capital markets in disequilibrium differently in developing, emerging or advanced economies.[192] The fragmented financial sector of developing economies and their formal financial institutions depend on solid monetary support from foreign governments, development banks and nongovernmental organisations to subsidise Microfinance schemes despite the lack of regulatory and supervisory infrastructure. Therefore, *"[…] microcredit in this context is primarily a means of smoothing consumption, spreading risk, improving incomes, and creating the possibility for saving at a lower cost of credit than in the informal sector"*.[193] Financially emerging countries are characterised by the current implementation of regulation systems in the formal financial sector broadening the access to yet unserved customers whilst closing the information gap about the risks to grant loans to the poor. Strengthening the microfinancial sector of emerging economies through the supply of suitable Microfinance products and services accomplishes the outreach to formerly marginalised sectors. In contrast, the formal banking systems in financially advanced countries face established legal and regulatory infrastructures providing access to financial services to the majority of the respective population. Nevertheless, society segments, again predominantly poor women, are confronted with obstacles detaining the participation in capital markets. Here, the application of Microfinance programmes offers the opportunity to overcome gender inequality, such market failures, and other societal issues.[194]

This country context illustrates that the demand for institutional Microfinance is not met yet. Robinson (2001) names the non-existence of reliable information as the main source for the imbalance on capital markets.[195] The Consultative Group to Assist the Poor is stated to estimate the sole demand for Microcredit to amount to USD 90 billion by 2025, omitting Microsavings and -insurances.[196] For the provision of necessary information bridging the *"absurd gap"*[197] to meet the demand of Microfinance, the institutionist approach suggests the identification, standardisation and industry adoption of a set of best practices realising financial sustainability of the institutions operating in the Microfinance sector, the "door

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[190] Cf. Woller et al (1999), p. 6f.
[191] Robinson (2001), p. 35.
[192] Cf. Cull et al (2008), p. 4.
[193] Barr (2005), p. 288.
[194] Cf. Barr (2005), p. 287f.
[195] Cf. Robinson (2001), p. 35.
[196] Cf. Woller et al (1999), p. 6.
[197] Robinson (2001), p. 6.

opener" to capital markets for poor and low-income households, and eventually successful outreach to the poor. The coverage of the requisite financial resources to balance Microfinance supply and demand thus cannot rely on subsidisation but needs to attract capital flows from the private sector. The value-based approach of welfarists considers this increasing commercialisation of the Microfinance movement as a threat displacing Microfinance's social mission.[198] And yet donor and government funds do not mobilise financial resources on global scale. The emergence of self-sufficient financial intermediaries is the first step towards the affordable provision of Microfinance products and services in the financial sectors.[199] The Economist (2007) therefore properly deduces that "*There is not enough donor or 'socially responsible' money in the world to meet the demand. That's why microfinance needs private-sector capital*".[200]

2.5 Financial Institutions as Suppliers of Microfinance Products and Services

The legal and regulatory framework of the microfinancial sector is characterised by its institutions unclenching the access for the marginalised poor to financial services. The approach requires the incorporation of the specifications of the monitored country to serve the macroeconomic preset at different stages of development.[201] Moreover, financial institutions operating in the formal banking sector are those to which law, specifications of bank law and additional supervisory principles apply. Semiformal institutions are subject to general and commercial law but perceived as informal not being compliant to banking regulations and supervision. In contrast, informal providers active in Microfinance are defined as those that are neither liable to general law nor to bank law. Due to this narrowed definition, Ledgerwood (1998) chooses the notion provider instead of institution to describe financial intermediaries of the informal sector.[202]

The Food and Agriculture Organization of the United Nations (FAO) delivers a detailed overview of microfinancing institutions in the formal, semi-formal, and informal sector distinguished by outreach to the poor, legal status, governance structure, structure of ownership, and source of capital presented below in Table 7.[203]

198 Cf. Woller et al (1999), p. 6f.
199 Cf. Robinson (2001), p. 8.
200 The Economist (2007).
201 Cf. Anrun (2005), p. 346.
202 Cf. Ledgerwood (1998), p. 97.
203 Cf. Food and Agriculture Organization of the United Nations (1995). And cf. Ledgerwood (1998), p. 13.

Formal Sector	Semiformal Sector	Informal Sector
Central Bank	Savings and Credit Cooperatives	Savings Associations
Banks Commercial Banks Merchant Banks Savings Banks Rural Banks Postal Savings Banks Labour Banks Cooperative Banks	Multipurpose Cooperatives Credit Unions Banques populaires Cooperative Quasi-Banks Employee Savings Funds	Combined Savings and Credit Associations – Rotating Savings and Credit Associations (ROSCAs) and Variants Informal Financial Firms Indigenous Bankers Finance Companies Investment Companies
Development Banks State-owned Private	Village Banks	Nonregistered self-help Groups
Other nonbank Institutions Finance Companies Term-lending Institutions	Development Projects Registered self-help Groups and Savings Clubs Nongovernmental Organisations (NGOs)	Individual Moneylenders Commercial Noncommercial Friends Neighbours Relatives
Building Societies and Credit Unions		Traders and Shopkeepers
Contractual Savings Institutions Pensions Funds Insurance Companies		NGOs
Markets Stocks Bonds		

Table 7: Providers of Financial Intermediation Services.
Source: Food and Agriculture Organisation of the United Nations (1995). Cf. Ledgerwood (1998), p. 13.

This three-fold typology of Microfinance Institutions reveals the differences in methodology and approach to cater the needs of the target group of poor and low-income households.[204]
The mechanism of the formal financial sector yields the generation of capital for Microfinance portfolios from traditional financial markets mandatory for large-scale economic growth. Additionally, compared to the semiformal and informal sector, formal financial intermediaries charge relatively low interest rates enabling them to entirely cover their administrative and financial costs. The underserved market niche of the poor and innovative Microfinance products and services attract an increasing number of formal financial institutions expanding their Microfinance activities to obtain scope.[205] Moreover, the

[204] Cf. Arun (2004), p. 347.
[205] Cf. Baydas et al (1997), p. 23.

regulatory and legal framework of the formal sector enhances credit stability and security for its clientele. But regulated financial institutions experience major problems in the outreach to the poor, particularly female Microfinance clientele, on account of increasing profitability and return on investment.[206]

Furthermore, the impact of semiformal institutions to Microfinance, and conjointly their advantages and disadvantages are less obvious, nevertheless playing an important role in the microfinancing system. The key objective of financial cooperatives and Microfinance NGOs is to attain depth of outreach. Cooperative financial institutions cater the needs of their individual members through the supply of mainly credit and savings services. This form of financial intermediation enables capital flows from urban to rural areas while keeping the mobilised resources in the communities where generated. Because of the local mobilisation of capital, institutions of the semiformal sector are opposed to social barriers in terms of dispersion, and hence experiences difficulties in financial growth.[207] Nongovernment Organisations operating on non-membership basis of the target group encounter weaknesses in scope due to the limitations in their legal authority and the neglection to meet the demand of local markets with suitable Microfinance products and services.[208] Anyhow, NGOs form the prevalent institutional structure in the microfinancial sector with the creation of social welfare as their mission statement.[209] In comparison to any other Microfinance Institution, *"NGOs reach the largest percentage of women, with the lowest average loan balance per borrower and, by far, the lowest average loan balance as a percentage of GNP per capita"*.[210]

Informal providers of financial intermediation are characterised by low operating and financial expenditures and the depth of outreach to the poor through their distinctive regional focus and structure. Despite these advantages, informal Microfinance groups face a trade-off in the provision of effective products and services because of the limitation of localised capital flows and resources having a challenge attaining sustainability. Their vulnerability to mismanagement and fraud affects informal providers endangering the permanence of Microfinance providers and constraining the product and service portfolio without external capital. Thus, the dependence of subsidisation and the reliance on local capital inherit a covariant risk. Adding social value to informal providers beyond the use as Microfinance delivery system encourages its participants in their economic and personal development.[211]

The provision of financial intermediary products and services by the formal sector evidently offers advantages over informal financial intermediation. Nevertheless, the optimal

[206] Cf. Churchill and Frankiewicz (2006), p. 38.
[207] Cf. Robinson (1998), p. 101.
[208] Cf. Churchill and Frankiewicz (2006), p. 39f.
[209] Cf. Robinson (1998), p. 101.
[210] Churchill and Frankiewicz (2006), p. 38
[211] Cf. Churchill and Frankiewicz (2006), p. 40.

combination of the strengths of the formal institutions, namely safety and anonymity, return on investment and fast access to funds, with the corresponding opportunities of informal providers of Microfinance proves itself valuable for the Microfinance movement on its path towards commercialisation.[212] *"The existence of informal arrangements provides evidence of demand for the financial products and services provided. The arrangements themselves may subsequently be incorporated into the formal financial system."* [213]

[212] Cf. Vonderlack and Schreiner (2001), p. 5ff.
[213] Vogel (2006), p. 19.

3 Models of Financial Development and Economic Growth

The financial systems of countries in the increasingly globalised world, whether developed or developing, generally accomplish two main objectives:

1. The administration of the payments mechanism of a country, and
2. the intermediation between investors and savers.[214]

To fully understand the coherence between the rationale for financial repression and monetary growth models, it is indispensible to comprehend the operations in financial markets and the differences from other markets. Hence, the pervasive theme of Chapter 3 is the decisive role of financial systems in the process of economic growth and financial development in developing and emerging countries.[215] The increased concern with the economic performance and particularly the striking differences of financial development and growth between developing, emerging and advanced economies extend the elaboration in Chapter 4.

This Chapter focuses on three different models of financial development and economic growth evolved over the course of time: McKinnon and Shaw (1973), Stiglitz and Weiss (1981) and the practical grassroots approach to Microfinance of the Grameen Bank in Bangladesh (1987). The following section gives a brief introduction of the practical and contemporary relevance of the theories.

McKinnon and Shaw (1973) highlight the dangers of financial repression and advocate the argument of maximum financial liberalisation leading to the misallocation of necessary resources in financing economic development.[216] In the mid-90s, free trade and the abolishment of all trade barriers were considered to benefit developing, emerging and advanced countries alike. With the completion of the Uruguay Round held by the World Trade Organization (WTO), 123 countries agreed to push forward the debate on globalisation through the protection of intellectual property rights and the expansion of traditional trade liberalisation. This approved built-in agenda foresaw subsequently further negotiations on the liberalisation of capital markets involving the IMF and the World Bank.[217] The theoretical framework of McKinnon and Shaw (1973), presented in Chapter 3.1, became path breaking for the contemplation and "*the design of programmes for the financial restructuring of countries as part of Structural Adjustment Programmes*"[218] by the IMF and the World Bank.[219]

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[214] Cf. Fry (1995), p. 3.
[215] Cf. Fry (1995), p. 3.
[216] Cf. Thirwall (2006), p. 424.
[217] Cf. World Trade Organization (-). And Cf. Stiglitz et al (2006), p. 167.
[218] Thirwall (2006), p. 424.
[219] Cf. Thirwall (2006), p. 424.

Already in 1981, Stiglitz, former Chief Economist of the World Bank[220] and Nobel Prize Laureate for Economic Sciences in 2001[221], and Weiss identify the complex interrelation of credit rationing in developing and emerging countries in the context of liberalisation and imperfect information, as discussed in Chapter 3.2.[222] On the contrary, proponents of capital market liberalisation (CML), eliminating restrictions on the free flow of volatile financial capital, consider markets under strongly simplified assumptions such as perfect markets and efficiency. The IMF and the World Bank, both Washington-based institutions, adopted this initial model for growth and development imposing a set of policies on low inflation, fiscal stringency, privatisation, and liberalisation in the Washington Consensus in 1990.[223] Stiglitz severely criticises the approach of the World Bank and the IMF "*for serving the needs of global finance, rather than the needs of global stability, encouraging premature internal and external financial liberalisation*".[224] Since capital market liberalisation under existing imperfections in real markets, rarely results in the desired welfare effects. Market failures, like externalities and barely existing insurance markets, capture a decisive role especially in developing and emerging economies and thus influence the effectiveness of traditional development aid programmes and in succession Microfinance.[225] Therefore, in response to the Washington Consensus, the Initiative for Policy Dialogue (IPD) reveals a key difference in perspective broadening the policy dialogue on imperfect markets in developing and emerging countries.[226]

The analysis of the model of Stiglitz and Weiss (1981) in Chapter 3.2 is extended by Tschach (2002) to elaborately compile the principal reasons for credit rationing in developing and emerging countries.

The group-lending model of the Grameen Bank has caught global recognition since the bank's foundation in 1987 by the economics Prof. Muhammad Yunus.[227] Grameen is the Bengali word for rural, hence Grameen Bank means "rural bank".[228] For his practical grassroot approach with the focus on women's empowerment and the poverty reduction through the provision of financial services to poor and low-income households, Yunus and the Grameen Bank received the Nobel Peace Prize in 2006.[229] Advocates and critics alike consider Prof. Yunus as the anchor of the microfinance movement and, as The Economist (2008a) states,

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220 Cf. World Bank (2001).
221 Stiglitz was awarded The Sveriges Riksbank Prize in Economic Sciences in memory of Alfred Nobel 2001 for the analyses of markets with asymmetric information, sharing the Prize with Akerlof and Spence. Cf. Nobel Foundation (2008a).
222 Cf. Stiglitz and Weiss (1981), p. 393ff.
223 Cf. Harvard University Center for International Development (2003). And cf. Stiglitz et al (2006), vii.
224 Thirlwall (2006), p. 603.
225 Cf. Stiglitz et al (2006), p. 167ff.
226 Cf. Stiglitz et al (2006), p. 229, 233f.
227 Cf. Morduch (1999), p. 1570.
228 Cf. Emran, Morshed and Stiglitz (2007), p. 6.
229 Cf. Nobel Foundation(2008b).

"*the public face of microfinance*"[230], the New Yorker (2006) solemnly declares him to be *"the godfather of microcredit"*.[231]
This early microcredit model pioneered by the Grameen Bank opened the capital market to the unbankable rising the global awareness that even *"poor people can be good credit risks"*.[232]
Even though that group lending is perceived as the *"mechanism that reduces problems of moral hazard and adverse selection"*[233], the over-reliance on donations and financial subsidies to keep the *"Grameen Economy"*[234] running provokes critics to question the iconic status of the Grameen solidarity lending model.[235]
The *bottom-up* approach of the Grameen Bank is introduced in Chapter 3.3 to bridge the gap between the theoretical models of financial growth and economic development and the practical implementation to support developing and emerging economies on the micro level.

3.1 The Model of McKinnon and Shaw (1973)

Liberal aspects to finance and economic development can be retraced to the last century.[236] Namely Joseph Schumpeter (1912) emphasizes the importance of finance for the entrepreneur's economic progress: "*Granting credit in this sense operates as an order on the economic system to accommodate itself to the purposes of the entrepreneur, as an order on the goods which he needs: it means entrusting him with productive forces. It is only thus that the economic development could arise from the mere circular flow in perfect equilibrium*".[237]
The fundamental thesis of the approach of McKinnon (1973) and Shaw (1973) enunciates the requirement of financial liberalisation and development as economic policies inevitable for growth.[238] Their inside money model determines endogenously financial intermediation and the rate of economic growth. Thus, financial intermediation accelerates economic growth ("*supply-leading relationship*"[239]) and economic growth promotes the demand for financial services ("*demand-following relationship*"[240]).[241] According to McKinnon and Shaw (1973), financial liberalisation and the focus on trade, exchange rates and countries' fiscal policies do initiate an increase in economic welfare of developing and emerging economies which suffer

230 The Economist (2008a).
231 The New Yorker (2006).
232 Robinson (2002), xxxi.
233 Morduch (1999), p. 230.
234 Cf. Emran, Morshed and Stiglitz (2007), p. 6.
235 Cf. Pearl and Phillips (2008), p. 412.
236 Cf. Fry (1995), p. 22.
237 Schumpeter (1912). Cf. Fry (1995), p. 22.
238 Cf. Fry (1995), p. 23.
239 Balassa (1990), p. 63.
240 Balassa (1990), p. 63.
241 Cf. Greenwood and Jovanovic (1990), p. 1076.

from financial repression.[242] Financial repression, as described by Fry (1995), thereby comprises interest rate ceilings, directed credit policies, and high reserve requirements.

The core elements of the McKinnon-Shaw model, in which financial institutions function as intermediators between savers and investors, are depicted in Figure 4.

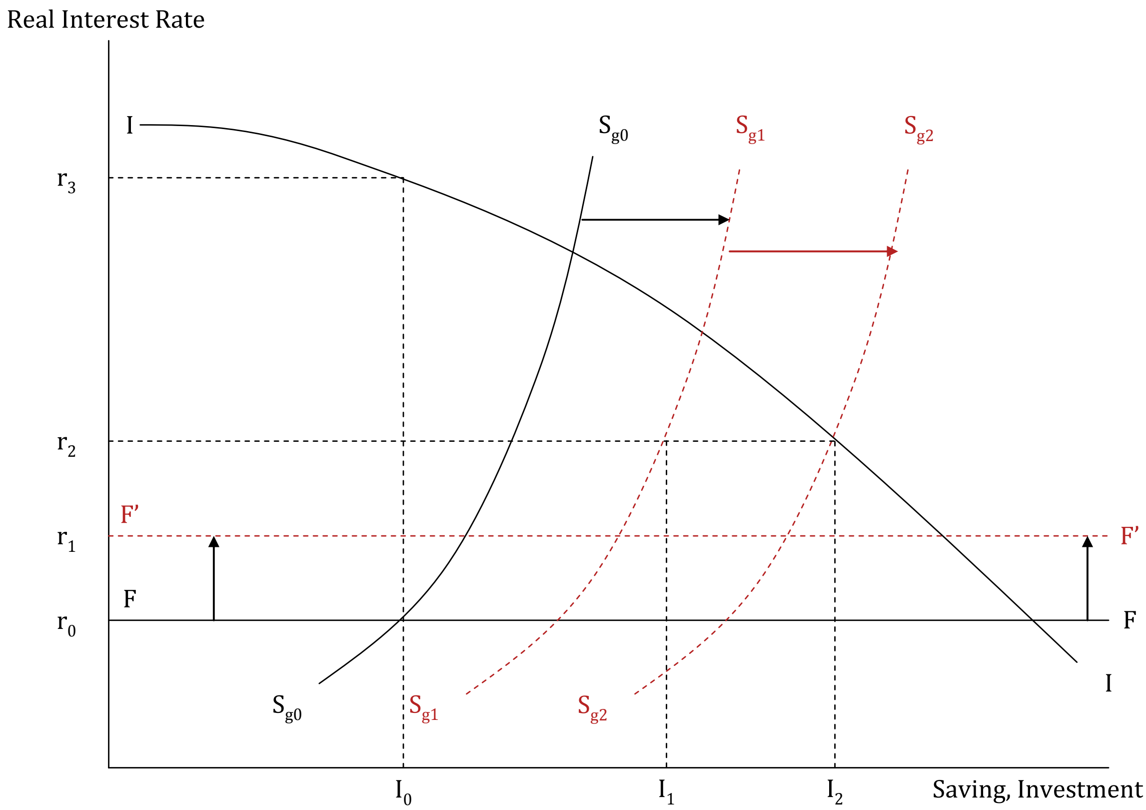

Figure 4: Saving and Investment under Interest Rate Ceilings.
Source: Fry (1995), p. 24.

The initial situation assumes the rate of economic growth g_0 with savings S_{g_o} being a positive function of the real interest rate r. The line FF depicts financial repression, "*taken here to consist of an administratively fixed nominal interest rate that holds the real rate r below its equilibrium*"[243]. The limit for actual investment is I_0 with the real interest rate at r_0. Applying the interest rate ceiling merely to the interest rates of the savers[244], borrowers, respectively investors, encounter the rate of interest r_3. Hence, r_3 indicates the rate of interest where the market is cleared with I_0, the constrained savings supply. The difference $r_3 - r_1$ is the specific amount exerted for nonprice services, i.e. advertising and opening new bank branches, by a regulated but yet competitive banking system.[245]

[242] Cf. Kapur (1992), p. 63.
[243] Fry (1995), p. 23.
[244] The interest rate ceiling is utilised only to deposit but not to loan rates of interest. Cf. Fry (1995), p. 24.
[245] Cf. Fry (1995), p. 25f. And cf. Permono (2004), p. 422.

Certainly, interest rate ceilings lead to unfavourable economic effects, infect the distortion of the financially repressed economy. Whilst low interest rates entail increased current consumption but reduce savings below the social optimal level in the long run, the increases in interest rates initiates the substitution of time deposits for cash, gold and curb market assets.[246] Furthermore, loan creditors rather choose low-yielding direct investment with the focus on risk reduction than bank deposits during periods with lower rates of interest. Interest rates below the equilibrium result in excess demand for funds, Shaw (1973) notes that there is "*credit rationing among borrowers, sometimes according to the dictates of monetary or other authority, sometimes according to the preferences of the financial intermediaries*".[247] Particularly, capital-intensive investments are promoted due to the beneficial substitution of capital for labour and their profitability.[248] The increase of the interest rate ceiling from FF to $F'F'$ or from r_0 to r_1 thus augments savings and investments and leads to a shift of the function of savings from S_{g_0} to S_{g_1} with the rate of economic growth at g_1. Hence, the increased quality and quantity of investment I_1 take effect on the investment efficiency. The equilibrium of I_2 and r_2 at the higher rate of growth g_2 in Figure 4: Saving and Investment under Interest Rate Ceilings. depicts the optimal result of maximizing investment along with the raise of investment's average efficiency and the abolition of interest rate ceilings. The policy implication drawn form the McKinnon-Shaw financial repression paradigm is therefore the increase of institutional interest rates or the decrease of the inflation rate to successfully implement financial liberalisation.[249]

In summary, this financial development framework reveals that financial repression provokes the decrease of the investment quality and quantity in the economy. Nevertheless, financial liberalisation provides developing and emerging countries with the chance to instigate economic growth and performance by enhancing investment and its productivity.[250]

3.2 The Model of Stiglitz and Weiss (1981)

Whilst McKinnon and Shaw (1973) postulate that the gradual reformation of the financial system to financial liberalisation leads to its increase and saving efficiency, Stiglitz and Weiss (1981) regard even a market system with a rapid and completed government role, dismantling in credit allocation, and without credit allotment as optimal. Nevertheless, the

[246] Cf. Balassa (1990), p. 61f.
[247] Shaw (1973), p. 84.
[248] Cf. Balassa (1990), p. 58.
[249] Cf. Fry (1995), p. 26f.
[250] Cf. Fry (1995), p. 38.

general economic consensus is that gradual financial liberalisation is inevitable for the process of economic growth and financial development.[251]

The Model of Stiglitz and Weiss (1981) focuses on credit rationing in markets with imperfect information. Therefore, Stiglitz and Weiss (1981) use the equilibrium approach, which is *Supply equals Demand*, to explain that the loan market in equilibrium is characterised by credit rationing. The interest rate is the price for the transaction of loans and is expected to lead to the balance of supply of funds and demand of loans without lasting credit rationing. However, the effect of credit rationing in competitive markets occurs because the pricing mechanism is rendered ineffectively. This condition does not meet its requirements of compensation and consequentially does not result in the balancing of supply and demand. On the contrary, the authors prove that the equilibrium of the market for loanable funds is distinguished by credit rationing.[252] Increased risks, transaction costs for granting loans, lack of collateral, governmental interest rate ceilings, incomplete information (mis-)leading to moral hazard[253]and adverse selection[254] account as factors which induce the exception to economic theory. It is here where Microfinance can break the vicious poverty circle.[255]

Initially, the decision calculus of the lending banks incorporates the credit interest rate and the credit risk. The credit interest rate itself decisively influences the credit risk because of imperfect information on the probability of default for capital markets.[256] The distribution of credits influences in return the efficiency in principal-agent relationships given that the principal, i.e. the respective lending bank or Microfinance Institution, possesses the resources to entrust to the agent, i.e. the borrower, again under imperfect information. The identification of *good borrowers* (asymmetric information[257] on part of the borrowers and savers), repaying their loan with a higher probability relative to their peer group, is the necessary consequence to minimise the effect of adverse selection of interest rates.[258] Misleading borrowers to high-risk behaviour, i.e. high-risk investments, (moral hazard) is prevented by designing incentive schemes aligning the agent's incentives with the principal's

[251] Cf. Permono (2004), p. 424.

[252] Cf. Stiglitz and Weiss (1981), p. 393.

[253] "*Moral Hazard generally occurs when an individual acts to maximise his or her welfare to the detriment of others in a situation where the individual does not bear the full consequences of his or her actions because of information asymmetries, uncertainties, or contracts that prevent assignment of full damages. In the credit market context, the lender cannot observe the borrower's use of loan funds. Yet the borrowers' limited liability provides an incentive to use loan proceeds for risky investments.*" Robinson (2001), p. 272f.

[254] "*Adverse selection describes a negative process of selection for the access to certain institutional arrangements, e.g. credits and insurance contracts. […] adverse selection deals with the explanation of selection processes before a contract is signed."* Hemmer and Wilhelm (2000), p. 98.

[255] Cf. Armendáriz de Aghion and Morduch (2005), p. 34ff.

[256] Cf. Blinder and Stiglitz (1983), p. 299.

[257] "*A situation in which one party to a transaction ha s more (or different) information about the transaction than does the other party. In credit markets, the borrower has more information about his or her creditworthiness than does the lending institution.*" Robinson (2001), p. 269f.

[258] Cf. Stiglitz and Weiss (1981), p. 393. and Hoff and Stiglitz (2001), p. 393.

specifications of the credit granting process.[259] The interest rate is one such price mechanism device employed to monitor trustworthy borrowers with a high probability of repayment and untrustworthy obligors with a low probability of loan pay back. The credit borrowers who are willing to pay higher rates of interest are on average less reliable because these individuals assume that the probability of the repayment scheme of the loan is rather low. With theaugmentation of the interest rates, the pool of credit borrowers deteriorates resulting in the expected return function to the bank shown in Figure 5.[260]

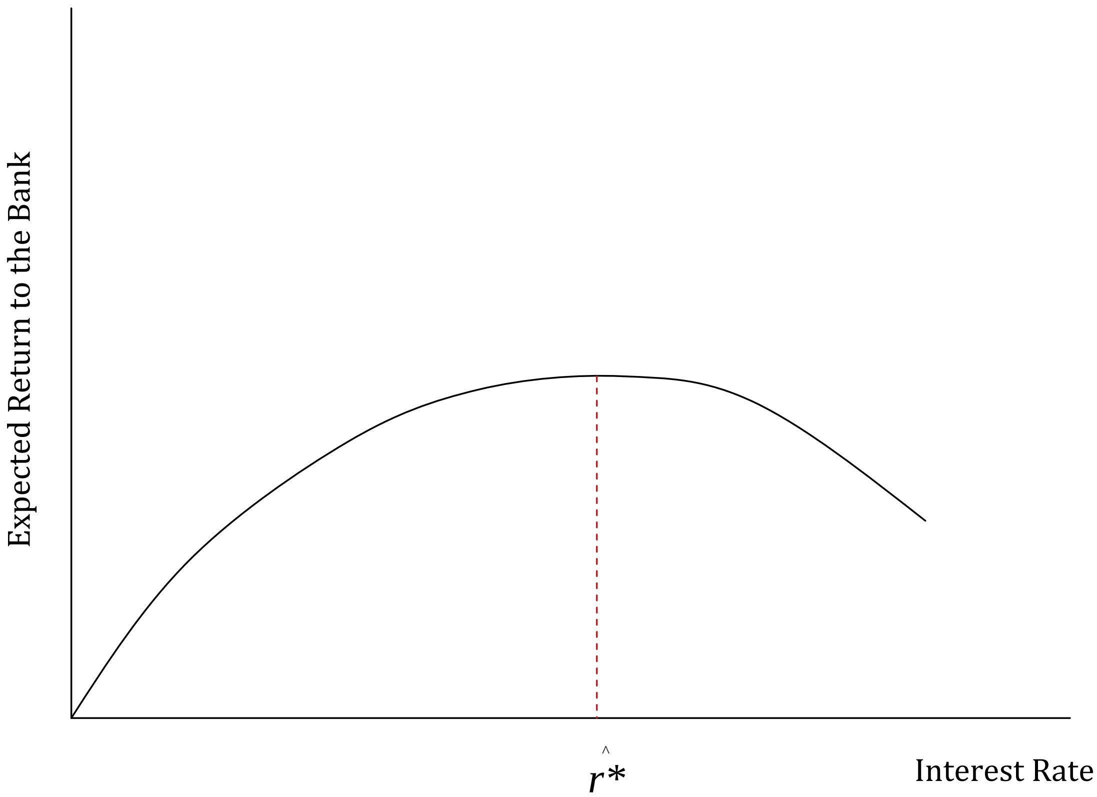

Figure 5: Interest Rate maximising the expected Return to the Bank.
Source: Stiglitz and Weiss (1981), p. 394.

Firstly, Stiglitz and Weiss (1981) proceed on the economic principle that higher expected returns are only achievable with the simultaneous assumption of increased risk: Investments which are regarded as relatively safe only generate relatively low returns. With a rise in the interest rate, "good borrowers" consequently leave the credit market since their investments are now no longer profitable.[261] Secondly, the debtors rather invest in comparatively riskier projects with increasing interest rates receiving higher rates of return in case of success. The net profit of the investment is obtained solely by the borrowers.[262] Whereas, in case of investment failure, the bank has to bear any shortfall which exceed the collateral. Thus, the

[259] Cf. Hoff and Stiglitz (2001), p. 393.
[260] Cf. Stiglitz and Weiss (1981), p. 393f.
[261] Cf. Stiglitz and Weiss (1981), p. 393f.
[262] Cf. Stiglitz and Weiss (1981), p. 393f.

bank "*will formulate the terms of the loan contract in a manner designed to induce the borrower to take actions which are in the interest of the bank, as well as to attract low-risk borrowers*".[263] Due to these reasons, the expected return function to the bank, as shown in Figure 5, rises to the critical interest rate $\hat{r}^*$ and decreases beyond this point. Yet, $\hat{r}^*$ marks the interest rate where the return to the lending institution is maximized and ergo Stiglitz and Weiss (1981) refer to this point as "*the bank-optimal*"[264] interest rate.[265]

Introducing the Stiglitz and Weiss (1981) Model, the basic determination of the market equilibrium and the theoretical justification of true credit rationing is demonstrated. Figure 6 presents graphically simplified the credit rationing equilibrium according to the authors.

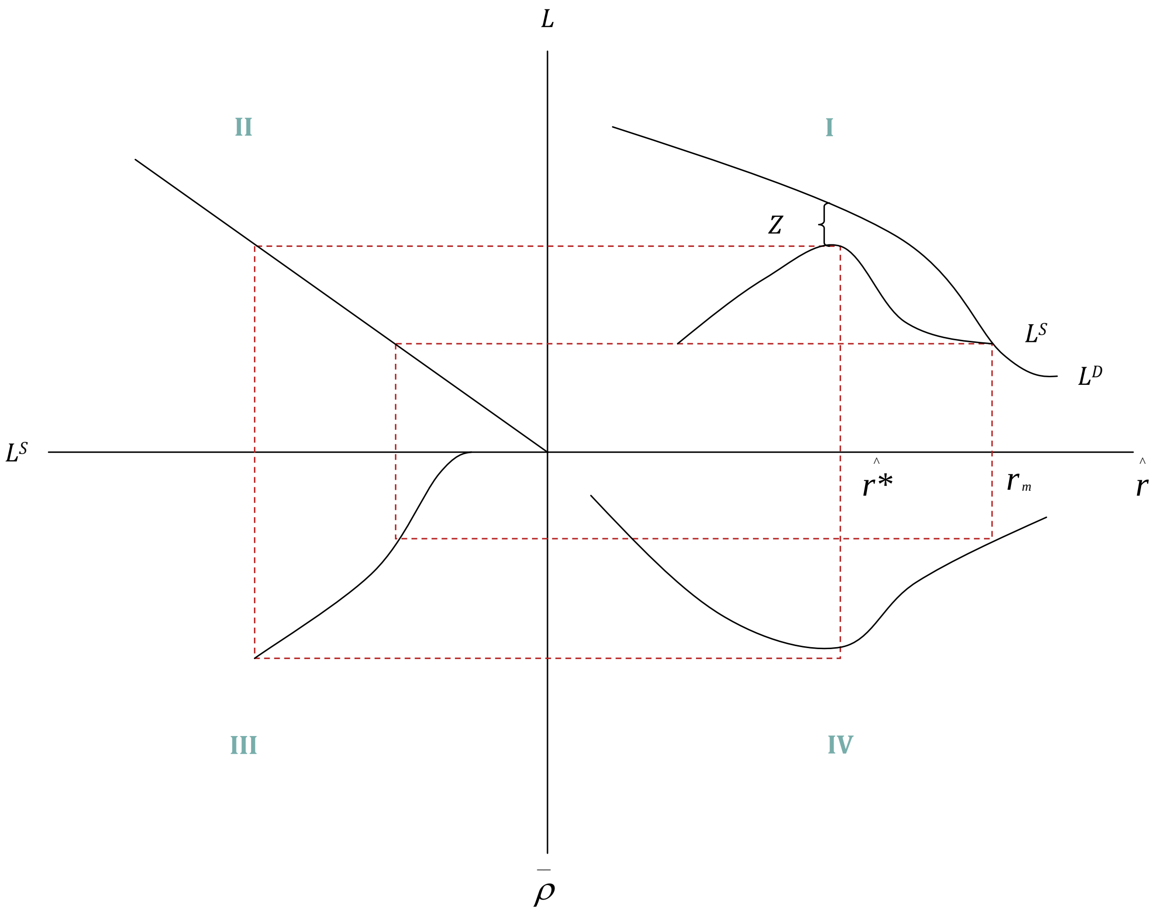

Figure 6: Determination of the Market Equilibrium.
Source: Stiglitz and Weiss (1981), p. 397.

To extend the analysis, Tschach (2002) summarises the central implications of the Stiglitz and Weiss (1981) Model in more detail, as depicted in Figure 7.

263 Stiglitz and Weiss (1981), p. 394.
264 Stiglitz and Weiss (1981), p. 394.
265 Cf. Stiglitz and Weiss (1981), p. 393f.

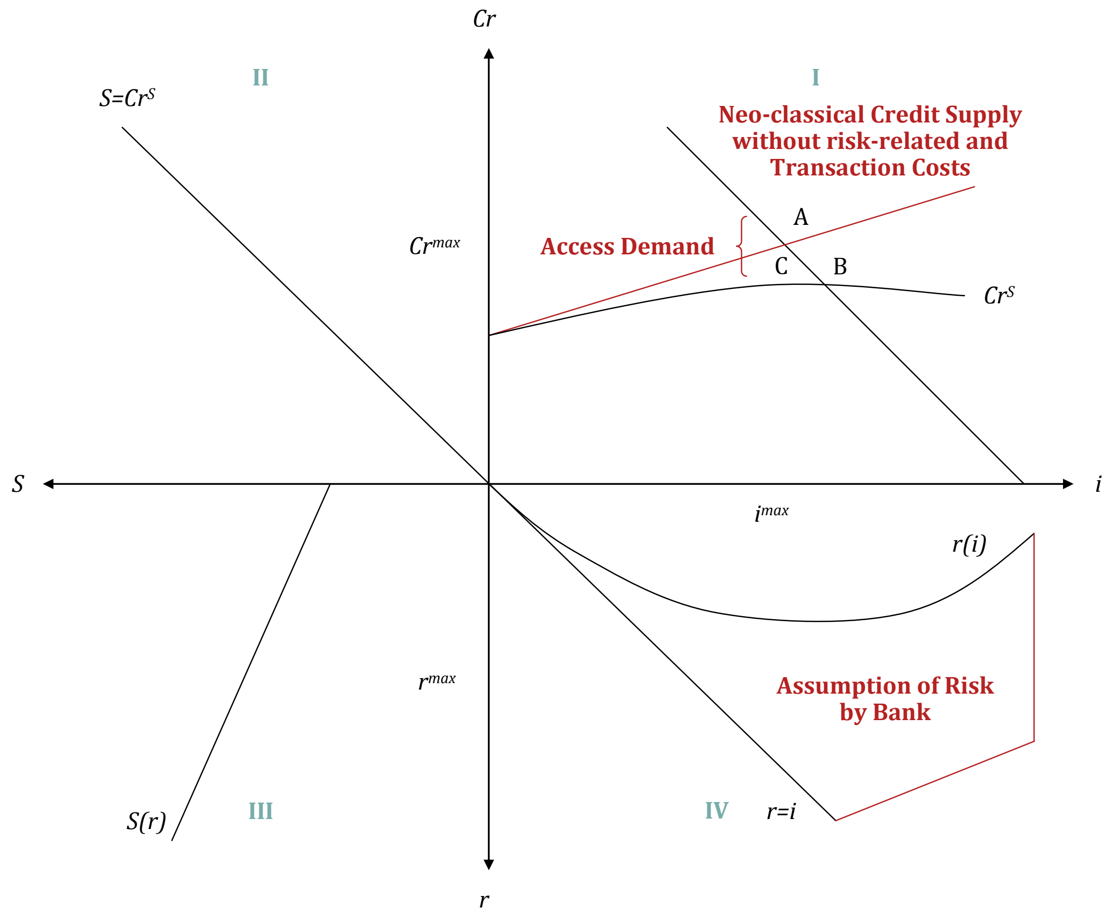

Figure 7: Central Implications of Stiglitz and Weiss (1981).
Source: Tschach (2002), p. 12.

The core of the model is a four-quadrant model linking the key arguments of credit rationing in equilibrium graphically in the Figure above. The conventional curve diagram of supply and demand is not utilised since the demand for credits is contingent on the rate of interest charged by the respective credit lending institutions i (see Stiglitz and Weiss (1981): $\hat{r}$). Plus, the supply of credits depends on r (see Stiglitz and Weiss (1981): $\bar{\rho}$), denoting the mean return on loans.[266]

The positive correlation between savings volume S and the rate of interest on savings deposits r^S is depicted as the savings function $S(r)$ (see Stiglitz and Weiss (1981): no denomination) in the third Quadrant.[267] *"However, there would be no fundamental change in the results even if the savings volume were completely inelastic with respect to interest rate."*[268]

266 Cf. Stiglitz and Weiss (1981), p. 397.
267 Cf. Tschach (2002), p. 12.
268 Tschach (2002), p. 12.

The expected return by the respective lending institution r has to be mandatorily at least as high as the interest rate which the bank's (potential) depositors receive.[269]

The savings volume S (see Stiglitz and Weiss (1981): no denomination), in Quadrant II is transposed into Quadrant I depicting the supply of loanable funds Cr^S.[270]

The major objectives of this Model are reflected in Quadrants I and IV. Thus, the forth Quadrant plots the relation between the expected bank return r and the lending interest rate i (see Stiglitz and Weiss (1981): no denomination).[271] Taking into account the assumption of distribution of asymmetric information between lender and borrower, the increase of i provokes the non-implementation of projects by low-risk creditors. Then again, rising interest rates encourage borrowers who continuously realise their relevant projects to invest in riskier projects. The implicit maximum interest rate $\hat{r}*$ of the Model of Stiglitz and Weiss (1981) is indicated as $i^{\max}$. The straight line in Quadrant IV defines the relation between r and i with $r = i$ as no credit risk for the bank. Whilst the curve $r(i)$ depicts the correlation between r and i which is actually relevant for the bank.[272] Therefore, an increase of the interest rate i beyond the point $i^{\max}$ is not advisable leading to a decrease of the banks' returns.[273]

The first quadrant depicts the supply Cr^S (see Stiglitz and Weiss (1981): L^S) and demand Cr^D (see Stiglitz and Weiss (1981): L^D) on the credit market.[274] The neoclassical credit supply without risk-related and transaction costs of the bank is characterized by point B as the intersection of supply Cr^S and demand Cr^D and an interest rate higher than $i^{\max}$, alternatively point C. To avoid any reduction in their returns, the banks do not charge rates at the level above $i^{\max}$ but issue $Cr^{\max}$ credits exactly at the interest rate $i^{\max}$. Hence, the excess demand for funds at $i^{\max}$ persists, described as the section between A and C (see Stiglitz and Weiss (1981): Z).[275]

Thus, "*the usual result of economic theorizing: That price clear markets, is model specific and is not a general property of markets – […] credit rationing is not phantasms*".[276]

In recent publications, Stiglitz severely criticises policies and reforms introduced to accelerate capital market liberalisation leading to slower economic growth especially in

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[269] For simplicity, the return on banks' lending activities equals the deposit interest rate and are both represented by r.
[270] Cf. Tschach (2002), p. 12.
[271] Cf. Stiglitz and Weiss (1981), p. 397.
[272] Stiglitz and Weiss (1981) choose a nonmonotonic relation between the interest rate, and the expected return to the bank.
[273] Cf. Tschach (2002), p.13.
[274] The position of the axes in the depiction of supply and demand in Figure 7 is exchanged.
[275] Cf. Tschach (2002), p. 13f.
[276] Stiglitz and Weiss (1981), p.409.

developing countries[277] since "*[...] evolving societal preferences and values have changed the relative weights associated with the various development objectives, modern theory has cast new light on strategies for achieving those objectives*".[278] The acknowledgement of the conseqeunces of non-economic forces is enhanced, in particular political forces as endogenous variable in the reform process to financial liberalisation.[279]

3.3 The Grassroots Approach of the Grameen Bank (1987)

Imperfections on the credit market and their severe implications strike poor people in developing and emerging economies particularly hard. The lack of assets as collateral for bank loans excludes the poor from obtaining credits in order to generate sustainable income. The Grameen Bank with its group lending model meets these requirements and exclusively directs funds to the ultra-core poor.[280] In November 2008, the Grameen Bank of Bangladesh reached a number of creditors of 7,647,612 in total, of which 97 per cent are female (7,412,600) and 235,012 are male. Moreover, having 2,536 branches in the country, the Grameen Bank attains consequently 97 per cent of all Bangladeshi villages.[281] The cumulative amount dispersed since the operational start of the bank amounts to Million USD 7,524.68, in contrast to the cumulative amount repaid of Million USD 6,706.09 resulting in the repayment rate of 89 per cent on small uncollateralised loans, as Grameen's monthly published balance sheet states.[282]

The two distinctive features of the Grameen Bank are the highly structured and decentralised organisation, with its mainly female members holding equity shares of the lending institution, and its unique lending model.[283] The key organising objectives, summarised in **Fehler! Verweisquelle konnte nicht gefunden werden.**, exemplify the combination of economic and social development goals chosen to actively dismiss the common stereotype of traditional banking.[284]**Fehler! Verweisquelle konnte nicht gefunden werden.** The key organising objectives, summarised in Figure 8 exemplify the combination of economic and social development goals chosen to actively dismiss the common stereotype of traditional banking.[285]

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277 Cf. Stiglitz et al (2006), p. 161ff.
278 Hoff and Stiglitz (2001), p. 428.
279 Cf. Hoff and Stiglitz (2001), p. 392, 428.
280 Cf. Wörz (1999), p. 1.
281 For detailed information, the interested reader is referred to Table A 4 *Balance Sheet of the Grameen Bank, monthly update for November in USD* in the Appendix.
282 Cf. Ashok and Sjöström (2004), 217.
283 Cf. Jain (1996), p. 80.
284 Cf. Jansen and Pippard (1998), p.110.
285 Cf. Jansen and Pippard (1998), p.110.

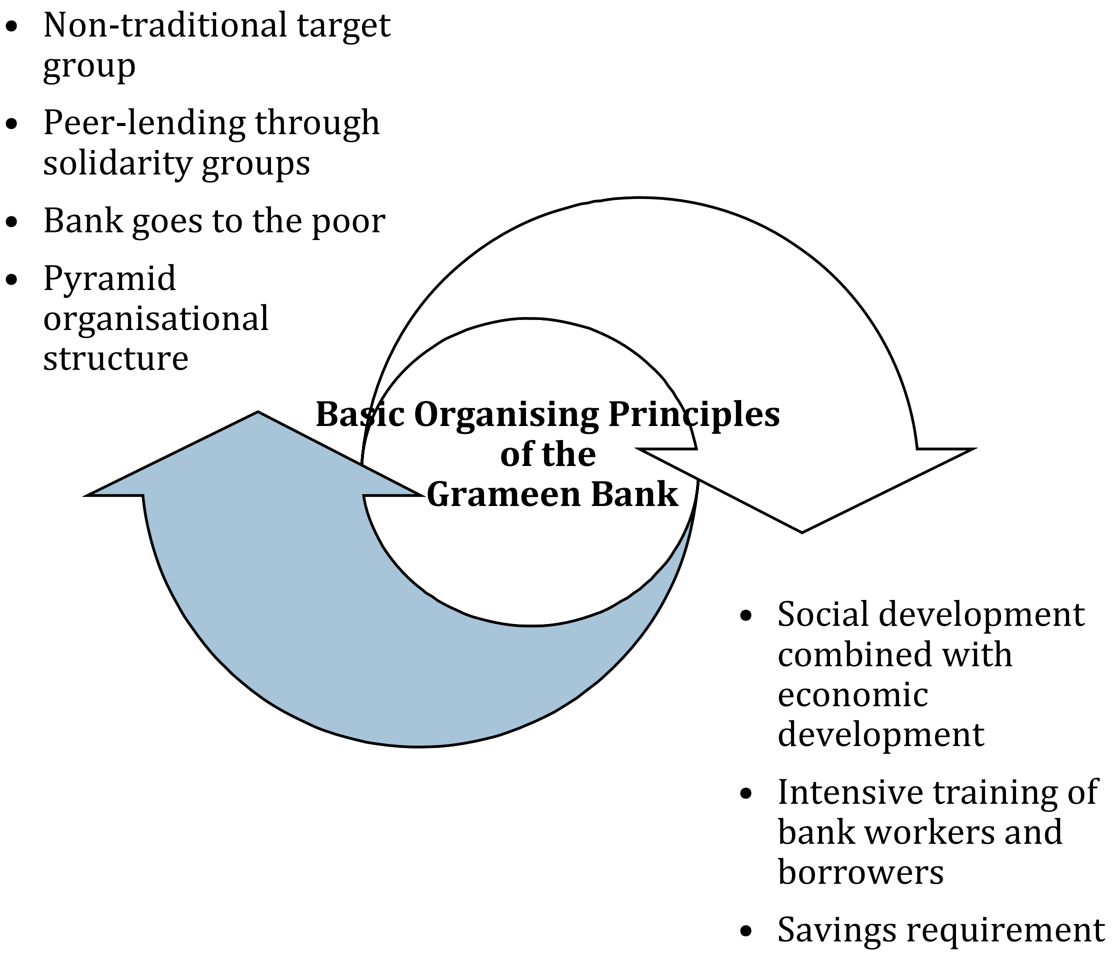

Figure 8: Basic organising Principles of the Grameen Bank.
Source: Adapted depiction. Cf. Jansen and Pippard (1998), p. 110.

According to Jansen and Pippard (1998), *"all these elements represent a grassroots community organizing model – they engage people actively in their own and others' economic and social lives"*.[286] The Grameen Bank's Credit Delivery System features essential conditions.

Groups of five self-select themselves; men's and women's group are kept separate but the members of a single group should have a similar economic background.
Membership is restricted to those with assets worth less than half an acre of land.
Activities begin with savings of Tk. 1.00 per week per person and these savings remain compulsory throughout membership.
Loans are made to two members at a time and must be repaid in equal instalments over 50 weeks.
Each time a loan is taken the borrower must pay 5% of the loan amount into a group fund.
The group is ultimately responsible for repayment.
The attendance at weekly group meetings is compulsory for the members.
All transactions are conducted openly at the weekly meetings.

Table 8: Credit Delivery System of the Grameen Bank.
Source: Adapted depiction. Cf. Johnson and Rogaly (1997), p. 7.

[286] Jansen and Pippard (1998), p.110.

Additionally, the regulatory framework of the Grameen's lending process constitutes the Code of Conduct or *"Social Development Constitution"*[287] involving 16 decisions[288], as follow in Table 9. These 16 regulations and rules have to be studied and memorized by the participants of the credit programme offered by the Grameen Bank before receiving recognition from the bank.[289]

No	Decision
1	We respect the four principles of the Grameen Bank – we are disciplined, united, and courageous workers – and we apply them to our lives.
2	We wish to give our families good living standards.
3	We will not live in dilapidated houses. We repair them and work to build new ones.
4	We cultivate vegetables the whole year round and sell the surplus.
5	During season for planting, we pick out as many seedlings as possible.
6	We intend to have small families. We shall reduce our expenses to a minimum. We take care of our health.
7	We educate our children and see that they can earn enough money to finance their training.
8	We see to it that our children and homes are clear.
9	We build latrines and use them.
10	We only drink water drawn from a well. If not, we boil the water or we use alum.
11	We will not accept a marriage dowry for our son and we do not give one to our daughter at her marriage. Our centre is against this practice.
12	We cause harm to no one and we will not tolerate that anyone should do us harm.
13	To increase our income, we make important investments in common.
14	We are always ready to help each other. When someone is in difficulty, we all give a helping hand.
15	If we learn that discipline is not respected in a centre, we go along to help and restore order.
16	We are introducing physical culture in all centres. We take part in social events.

Table 9: The 16 Decisions of the Grameen Bank.
Source: Adapted depiction. Cf. Fernando (2006), p. 216.

With the promotion of these 16 social development goals amongst its borrowers, the Grameen Bank determines the mandatory prerequisites in granting loans: small-scale families and birth control, sanitation and a clean environment.[290]

The staff of the Grameen Bank applies specific criteria to assess the poverty level of its clients. If the 10 indicators, depicted in Table 10 10, are fulfilled, the borrower and her family are reckoned to have moved out of poverty.[291]

[287] Peoplesfund (2001), p.1.
[288] The 16 Decisions of the Grameen Bank were formulated in March 1984 by 100 female branch managers at a national workshop adding a social development workshop to the financial institution. Cf. Jansen and Pippard (1998), p. 113.
[289] Cf. Rahman (1999), p. 81.
[290] Cf. Kamaluddin (1993), p. 38.
[291] Cf. Grameen Bank (2008a).

No	Indicator
1	The family lives in a house worth at least Tk. 25,000 or a house with tin roof, and each member of the family is able to sleep on bed instead of on the floor.
2	Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.
3	All children in the family over six years of age are all going to school or finished primary school.
4	Minimum weekly loan instalment of the borrower is Tk. 200 or more.
5	Family uses sanitary latrine.
6	Family members have adequate clothing for every day use, warm clothing for winter, such as shawls, blankets, etc., and mosquito-nets to protect themselves from mosquitoes.
7	Family has sources of additional income, such as vegetable garden, fruit-bearing trees, etc., so that they are able to fall back on these sources of income when they need additional money.
8	The borrower maintains an average annual balance of Tk. 5,000 in her savings accounts.
9	Family experiences no difficulty in having three square meals a day throughout the year, i.e. no member of the family goes hungry any time of the year.
10	Family can take care of the health. If any member of the family falls ill, family can afford to take all necessary steps to seek adequate healthcare.

Table 10: The 10 Indicators of the Grameen Bank.
Source: Adapted depiction. Cf. Grameen Bank (2008a).

Certainly, the Grameen Bank's initiative leads to poverty reduction of the world's poor women: 48 per cent of long-term obligors already crossed the poverty line with the technical assistance of the Grameen loan within a time period of 5 years and additional 27 per cent harbour below the line of poverty in contrast to 25 per cent members who are not able to make substantial improvement due to long-term sickness.[292] These figures indicate the success of the Grameen lending model in targeting the poorest of the poor and promoting their socioeconomic conditions by granting microcredits. Prof. Yunus is credited with the prove that "the poor are bankable" due to the fact that Grameen's grassroots approach is globally the most cited success story in development aid.[293] The following text box illustrates the successful impact of the Grameen Bank on the life of a Bengali woman.

"First time beggar Halma received Tk. 500 as interest free loan from Grameen Bank and she bought a goat with Tk. 350 and two hens with Tk. 150. The goat gave birth to 3 kids and the hens gave birth to some chickens. She became solvent by selling eggs and chickens at the market. At the 2nd stage, she bought 2 goats by taking loan amounting to Tk. 1,000. Now she posseses 6 goats, including 2 kids and 10 hens. She is running her family with only selling the eggs of the hens. Halima does not beg any more."

Box 5: Typical Success Story of the Grameen Bank.
Source: Grameen Bank (2009).

[292] Cf. Rubinstein (1994).
[293] Cf. Hulme (2008), p. 4.

But, recent studies in opposition of the Grameen's group-lending model presume that approximately 94 per cent of its members do not allocate their resources according to the concluded credit contract.[294] A negative example of the Grameen Bank is shown in Box 6 to contrast its global iconic status in Microfinance.[295]

Belatun Begum *"[…] took one loan in three instalments, totalling Tk. 30,00 (USD 525). She says the original loan was to buy a cow, but she actually gave some money to her husband, a well-digger, and used the rest to improve her house. She confesses to borrowing a neighbour's cow to show Grameen at meetings*."

Box 6: Negative Example of the Grameen Bank.
Source: Pearl and Phillips (2008), p. 415.

In sharp contrast to the World Bank and International Monetary Fund stands the social capitalist ideology of Prof. Yunus and Grameen. Although both institutions – the Grameen Bank and the World Bank – grant credits to rural, poor people, the respective process of lending faces significant differences. While Grameen provides groups of five closely related people with microcredits, the World Bank gives credits collectively to the country.[296] Critics state that these directed credit policies issued by the IMF and the World Bank do often fail to induce lasting improvements and – in a worst case scenario – do not even reach the eligible target group.[297] Prof. Yunus agrees as "*the multilateral lending agency has failed to fight poverty and also has deviated from its central objective of alleviating poverty. The World Bank was created to eradicate poverty. It cannot achieve the objectives for which it was created*".[298] In return, the World Bank pays tribute to Grameen and its founder by recognising the importance of their financial intermediation for poor and low-income households, and thus provided the Grameen Trust[299] in 1994 with subsidies of USD 2 Million for further replication projects around the world.[300] This urges critics to point out that Grameen is a mainly subsidised lending institution. Subsidies, donations and interest-free loans provide a distorted picture of the actual operational costs and enable the bank to offer conditions which are not profitable in reality. The net profit monthly reported in the balance sheet of the Grameen Bank is imprecise since a large part of the capital inflow comes from subsidies and donations: 11 cents of every USD given to the Grameen Bank are financed by subsidies.[301] Further, the Grameen Bank charges *"relatively low rates of interest – 20% a year. To operate*

294 Cf. Wright (2000), p. 7.
295 Cf. Pearl and Phillips (2008), p. 412.
296 Cf. Ashta (2007), p. 2.
297 Cf. Odedokun (1996),p. 450ff.
298 Microcapital (2007).
299 Grameen Trust's mission is to initiate programs on poverty alleviation and to promote the grassroots Approach of the Grameen Bank as well as to provide financial and technical support to replication projects of Grameen. Cf. Grameen Trust (2009).
300 Cf. Khandker, Khalily and Khan (1994), p. 1.
301 Cf. Morduch (1999), p. 235f.

without subsidies, however, Grameen would have to increase interest rates to 33% a year. Group-lending schemes have succeeded where others had failed in providing credit to the poor, but as Morduch (1999) notes, a large number still face the problem of operating costs".[302] Robinson's (2002) study *The Paradigm Shift in Microfinance: A Perspective from HIID* concludes that *"the Grameen model of micro-lending institution, though it has been successful for many years, is not globally affordable. Moreover, the most experienced and even successful NGOs have found themselves exposed to external conditions"*.[303]

[302] Kanbur and Squire (2001), p. 211.
[303] Robinson (2002), p. 7.

4 Analytical Study of Microfinance in Developing, Emerging, and Advanced Economies

The global *"Microfinance Revolution"*[304] provokes a substantial change in the perception of development aid strategies serving poor and low-income households. Financial institutional arrangements enable flows of money in form of small-sized loans, savings mechanism of small volume, and effective and suitable insurance schemes broadening the access to conventional products and services of the formal financial sector in the long-run. The outreach and impact of Microfinance on its financially vulnerable target group of poor and low-income households is clearly apparent. However, Zeller and Meyer (2002) argue that *"MFI field operations have far surpassed the research capacity to analyze them, so excitement about the use of microfinance for poverty alleviation is not backed up with sound facts derived from rigorous research. Given the current state of knowledge, it is difficult to allocate confidently public resources to microfinance development".*[305] The uncertainty about accurate data and methodological difficulties are still prevailing in recent literature. Nevertheless, poverty and inequality impact studies highlight differences and similarities of Microfinance ideal for cross-regional comparison.[306]

Accordingly, the elaboration is extended by the analytical study of Microfinance in developing, emerging, and advanced economies with the practical approach describing the importance of macroeconomic stabilisation and socioeconomic context of the surveyed regions Asia and the Pacific, the Middle East and North Africa, Sub-Saharan Africa, Europe and Central Asia, and Latin America and the Caribbean introduced in Chapter 4.2. The economic performance and precisely the striking differences of economic growth and financial development between the monitored regions delivers evidence of obstacles and barriers to rational expectations, "*more generally, a fundamental obstacle to economic development in all states, not only dictatorships, can be posed by groups whose political power is threatened by progress*".[307] Yet, this progress towards poverty alleviation and equality in gender and income is the ultimate objective of Microfinance programmes introduced around the globe. The measurement of the performance of MFIs with a double bottom line assesses the impact on Microfinance with the results analysed in Chapter 4.3.

304 Armendáriz de Aghion and Morduch (2005), p. 14.
305 Zeller and Meyer (2002). Cf. Montgomery and Weiss (2005), p.1.
306 Cf. Montgomery and Weiss (2005), p.1.
307 Hoff and Stiglitz (2001), p. 425.

4.1 Objectives and Methodology of the Study

The analytical study assess the impact of Microfinance Institutions on inequality and poverty in the macro- and socioeconomic context, presenting stylised facts on Asia and the Pacific, Sub-Saharan Africa, the Middle East and North Africa, Europe and Central Asia, and Latin America and the Caribbean. The thesis' main goal is the deliverance of in-depth knowledge of the characteristics of the current global microfinancial landscape and its trend scenarios comprising the objectives and the scope of the thesis *Microfinance – An Analytical Study of Developing, Emerging, and Advanced Economies*. The objectives and the scope are specified in Table 11.

Introduction of macroeconomic indicators to set the scene for the analytical study.
Determination of poverty impact on the population.
Cross-regional comparison of the incidents of human development and their influence on inequality in gender and income, and poverty.
Establishment of the comparison between the regions classified.

Table 11: Objectives and Scope of the Study.
Source: Own depiction.

The limitation to statistical descriptive analyses is necessitated by the nature of the aggregated data by way of questionnaire-based field surveys. The elaboration is based on the data set drawn from the World Bank's *World Development Indicators* and the macroeconomic benchmarks of the MicroBanking Bulletin. Both, the tabulations of the MicroBanking Bulletin and the World Bank for macroeconomic and socioeconomic surveys are suitably designed to enable the comparison of the impact of Microfinance. Moreover, the thesis utilises the regional split of the MicroBanking Bulletin in Asia and the Pacific, Sub-Saharan Africa, the Middle East and North Africa, Europe and Central Asia, and Latin America and the Caribbean.[308]

4.2 Macroeconomic Framework and Socioeconomic Context

Broad-based economic growth and financial development is crucial to accelerate the eradication of poverty, income and gender inequality. The World Bank (1993) reasons that

[308] For a detailed overview, the interested reader is referred to Table A1 *Country Classification according to the International Monetary Fund* in the Appendix.

growth in the context of low gender subordination, and pro-poor distributional change reduces poverty substantially.[309] Equally, inequality in income with regard to gender takes effect on the rate of economic growth inducing the alleviation of poverty. Since economies with high level initial inequality and distributional patterns benefiting the nonpoor experience less economic growth, the evidence is unequivocal that the momentum of poverty reduction requires increased economic growth, lower income and gender inequality.[310]

The macroeconomic framework and financial market stability in conjunction with socioeconomic development are the connoting factors to economic growth and financial development of developing, emerging, and advanced economies. Furthermore, the Microfinance sector necessitates an enabling environment for its efficient operations and continued growth towards commercialisation.[311] This Chapter elaborates the recent macroeconomic performances of the regions East Asia and the Pacific, South Asia, the Middle East and North Africa, Sub-Saharan Africa, Europe and Central Asia, and Latin America and the Caribbean, additionally the development of the financial sectors and their initial socioeconomic conditions to set the scene for the structural analysis based on the operational impact of Microfinance Institutions. The share of urban population and the density of the respective population serve as population indicators illustrating the magnifying challenges in financial services, nutrition, health, and education.[312] The regions' macroeconomic performances are depicted through the indicators *Gross National Income*, the *growth of the Gross Domestic Product*, and the *rate of inflation* with cumulated data for East Asia and the Pacific, and South Asia. According to the Human Development Index (HDI)[313] of the United Nations, factors of human development with regard to *life expectancy* and *educational attainment* are additionally listed in Table 12. The estimates of global poverty are presented in Table 13, recalibrating the threshold of the USD 1.00 per day at USD 1.25 per day adjusted for purchasing power parity by the International Comparison Program (2008).[314]

309 Cf. World Bank (1993), p. 12ff.
310 Cf. Cord (2007), p. 1.
311 Cf. Charitonenko and Rahman (2002), p. 4.
312 Cf. Charitonenko and Rahman (2002), p. 4.
313 *"The Human Development Index measures a country's achievements in terms of life expectancy, educational attainment, and adjusted real income."* United Nations Development Programme (2001), p.3
314 Cf. World Bank (2008), p. 1.

	East Asia and the Pacific	South Asia	Sub-Saharan Africa	Middle East and North Africa	Europe and Central Asia	Latin America and the Caribbean
Macroeconomic Indicators						
GNI per Capita (in USD)**	1,013		540	1,589	3,621	2,920
GDP Growth Rate (in %)**	7.3		6.3	6.4	7.8	4.8
Inflation Rate (in %)**	6.4		8.2	5.4	9.0	4.0
Population Indicators						
Population Density (in people per sq. km)*	118.73	308.79	32.32	34.09	19.79	27.24
Share of urban Population (in %)*	not available	12.3	not available	20.4	16.6	34.4
Human Development Indicators						
Fertility Rate, total (in Births per Woman)*	2.0	3.1	5.3	3.0	1.6	2.4
Mortality Rate, Infant (per 1,000 live Births)*	24.9	63.3	95.0	35.2	23.5	23.2
Literacy Rate, Adult male (in % of males ages 13 and above)*	94.6	70.4	68.8	82.6	98.8	90.6
Literacy Rate, Adult female (in % of females ages 13 and above)*	86.8	45.8	50.4	63.1	96.2	89.1

Table 12: Initial Conditions in the Regions surveyed.
Source: Adapted depiction. *Cf. World Bank (2005). And ** cf. MicroBanking Bulletin (2007).

	East Asia and the Pacific	China	South Asia	India	Sub-Saharan Africa	Middle East and North Africa	Europe and Central Asia	Latin America and the Caribbean	Total
Regional Poverty Estimates									
People living on less than 2005 PPP USD 1.25 a Day (in millions)	316	208	596	456	388	11	17	45	1,374
Share of People living on less than 2005 PPP USD 1.25 a Day (in %)	16.8	15.9	40.3	41.6	50.9	3.6	3.7	8.2	25.2

Table 13: Poverty Estimates of the Regions surveyed.
Source: Adapted depiction. Cf. World Bank (2008), p. 11.

Sustained progress in economic growth has gained pace across the Asian region experiencing robust economic performance with an annual average rate of the Gross Domestic Product growth of 7.3 per cent in the year 2005 although the inflation rate amounts to 6.4 per cent. Responsible for this strong economic progress across Asia is the region East Asia and the Pacific in general, more particular China accounting as high-growth and thus emerging economy. More recently, India has made substantial improvement with the Gross National Income of USD 2,880 per capita in 2003[315], augmenting at an average of 4-5 per cent per year since the beginning of the mid-1990s, in contrast to the average GNI of USD 1,013 in Asia.[316] The emergence of China and India has global impact and creates challenges but also opportunities to human development. Eminently, the agricultural production in this monitored region is under the capacity, undermining efforts to expand the eradication especially of rural poverty. South Asia evinces rural depopulation with a more than doubled population density of 308.79 persons per sq. km relative to 118.73 in East Asia and the Pacific. This high population density reduces transactions costs in the Microfinance procedure but gives rise to urban poverty and its negative implications.[317] Considering Bangladesh as example, the commercial banks of the formal financial sector currently serve only 20 per cent of the population.[318] Cull et al (2008) persist that in Asia *"microfinance can make a major dent in populations living on under $1 per person per day"* .[319] Adjusted for purchasing power parity to the threshold of USD 1.25 per day, the World Bank (2008) counts 316 million people who live in poverty in East Asia and the Pacific, and respectively 596 million persons vegetating under the poverty line in South Asia compared to 388 million poor people of the developing economies of Sub-Saharan Africa.[320] Malnutrition and public health systems in deficit indicated by the rate of fertility and infant mortality are glaring in South Asia (3.1 births per woman and 63.3 per 1,000 live births) and again in the Sub-Saharan region of Africa. Raising literacy and hence the educational standard, notably women's education and further their employment, anticipates the increasing macro- and socioeconomic destruction in Asia.[321]

Statistical evidence reinforces the assumption that Sub-Saharan Africa is worst affected by inequality in income and gender, and poverty. Pertaining to current figures of the World Bank (2005), the Sub-Saharan continent exhibits an annual growth rate of the GDP at 6.3 per cent with the agricultural sector being the main contributor.[322] Nevertheless, the performance of the agricultural sector has to be fostered substantially to ensure permanent income and

315 Cf. Globalis (2009).
316 Cf. United Nations Development Programme (2007), p. 24.
317 Cf. Cull et al (2008), p. 23.
318 Cf. Rahman (2000),p. 16.
319 Cull et al (2008), p. 16.
320 Cf. Euromonitor International (2007), p. 2.
321 Cf. United Nations Development Programme (2007), p. 29.
322 Cf. World Bank (2005).

regional food security especially in remote regions.[323] The Gross National Income per capita of USD 540 is the lowest in global comparison reflecting the Sub-Saharan countries' vulnerability due to the dependence on exports of commodity goods, and the region's minimal economic diversification. [324] A cumulated rate of inflation of 8.2 per cent in the year 2005 negatively endows this macroeconomic destabilisation. The developing economy of Mali exemplifies the weak position of Sub-Saharan Africa in the cross-regional analysis occupying rank 173 of 177 of the Human Development Index of the United Nations.[325] Moreover, the low population density even in remote areas, the deteriorating infrastructure and the poor monetisation of the African subcontinent form the major constraints to the unmet demand of financial products and services targeted at poor and low-income households. On that score, the concentration of poor populations is greatest in Sub-Saharan Africa in international comparison.[326] With 50.9 per cent share of the population living below the poverty line, expenditures on education and health are restrained to a minimum. The public health systems have to minister an estimate of 25.4 million HIV-positive people, translated into 60 per cent of the total population suffering from HIV/AIDS. This pandemic effects the financial development and economic growth of the region severely.[327] The equally low literacy rates of men with 68.8 per cent and women with 50.4 per cent jeopardise further socioeconomic development aggravating the access to suitable financial products and services.[328]

The Middle East and North Africa prove oscillating growth mirroring the influence of exogenous factors and socioeconomic policies on the one hand and resilience in delivering development on the other hand.[329] The Gross Domestic Product growth is rated at 6.4 per cent for the year 2005 placing the MENA region on an average position in international comparison with only little advance to Sub-Saharan Africa (0.1 per cent). While only two countries of the region, Yemen and Djibouti, have a GNI of below USD 1,000, the median Gross National Income of USD 1,589 and the relatively low inflation rate of 5.4 per cent push the emerging economies of the Middle East and North Africa.[330] The fast shift from the agricultural sector towards service-orientated economies contributing increasingly to the GDP implicates rural-urban migration illustrated by the indicator of population density counting 34.09 people living per sq. km in the MENA region. Despite the rural-urban migration, still 79.6 per cent of the populations stay in rural areas and are growing heightening the reliance of rural poor and low-income households on the countries' service

323 Cf. United Nations Development Programme (2007), p. 9.
324 Cf. Euromonitor International (2007), p. 2.
325 Cf. United Nations Development Programme (2007), p. 232.
326 Cf. Euromonitor International (2007), p. 2.
327 Cf. Buss (2005), p. 3
328 Cf. Visconti (2008), p. 4.
329 Cf. Cord (2007), p. 2.
330 Cf. Brandsma and Hart (-), p. 13.

sectors. This, in turn, leads to the extended demand of efficient financial tools to promote economic growth and financial development. The financial sector is characterised by principles confirming to the Islamic religion. The Islamic finance mode classifies interest free-loans (*qard-hasan*), partnerships with profit or output sharing (*shirakat*), and exchange contracts (*mu'awadat*).[331] Today, more than 500 Sharia-compliant financial institutions exist around the globe reaching out to 75 countries employing fair, welfare promoting, and nonexploitative practices.[332] In the Middle East and North Africa, the dimension of poverty is marked by less abject poverty with 11 million people living below the poverty threshold.[333] Even though the region records a falling rate of growth, the indicators of human development are still alarming. It is here where the combined mechanism of Islamic Microfinance reaches the key objectives of sufficient nutrition, adequate medical care through the public health care system and improvement of the educational standard. The glaring gap in male and female literacy, 82.6 per cent compared to 63.1 per cent, indicates the indispensability of the MENA region to broaden the access for women to education.[334]

Recent economic trends across Europe and Central Asia reveal a substantial shift away from the fordist model towards service-orientated economies especially in Continental Europe. Consequently, Europe has to record increasing rates of unemployment among the population who traditionally relied on wage employment. Contrary, the growing service sector accounts for 75 per cent of the Gross Domestic Product depicting a total growth rate of 7.8 per cent in the year 2005.[335] The rapid transition from Soviet-influenced centrally planned to market economies rendering the possibility of private entrepreneurship contributes to the GNI per capita of USD 3,621 across Europe and Central Asia.[336] Nevertheless, the continuous rate of inflation of 9.0 per cent is the highest in cross-regional comparison affecting particularly micro, small and medium sized enterprises providing consumer services and goods in rural and less urbanised regions.[337] These small service and production units are necessary to serve the European and Central Asian population of which 16.6 per cent live in urban areas. But commercial banks of the formal financial sector evade the confrontation arguing that low margins, high risks of default, and the low rate of investment return let SMEs appear unprofitable. Thus again, the demand of financial services and products is not yet met offering potential for Microfinance strategies to close this gap. Unsurprisingly, the human development indicators deliver good results for Europe and Central Asia indicating less than

[331] Cf. Ahmed (2002), p. 10.
[332] Cf. Consultative Group to Assist the Poor (2008), p. 2.
[333] Cf. Brandsma and Hart (-), p. 1ff.
[334] Cf. Brandsma and Hart (-), p. 13.
[335] Cf. Evers et al (2007), p. 9.
[336] Cf. Pytkowska (2007), p. 191.
[337] Cf. Organisation for Economic Development and Co-operation (1996), p. 24.

4 per cent of the population vegetating on or below the USD 1.25 per day threshold, strong public health systems, and improved level of education.[338]

The understanding of the impact of growth on economic and gender injustice across Latin America and the Caribbean is the key to understand the high and persistent poverty rate, and in a further step the impact of Microfinance on their alleviation. Despite this prevailing rate of poverty with 45 million people living on or below the USD 1.25 a day threshold, the region has a relatively high Gross National Income per capita of USD 2,920 and the lowest inflation rate in international comparison of 4 per cent. Moreover, the growth rate of the Gross Domestic Product of 4.8 per cent is the lowest in comparison to other regions categorised as developing and emerging. Hence, Latin America and the Caribbean is mocked by an unstable, flatering macroeconomy driving inequality decompositions.[339] With the majority of the population (65.6 per cent) living in remote areas, effective Microfinance activities are implemented successfully to overcome extreme inequality in income and gender subordination. Peru and Bolivia are regarded as economies with the most developed market of Microfinance evincing transformed and profitable operating Microfinance Institutions.[340] Improvements in education and the public health systems in this high-inequality environment are crucial to deliver pro-poor growth in the long-run.[341] The fertility rate of 2.4 children per women is comparable to the rates recorded for East Asia and the Pacific, as well as Europe and Central Asia but revealing the lowest mortality rate of infants in international comparison. The adult literacy rate is very high and shows only a slight difference between men and women. To satisfy these basic needs of public services in education and healthcare, the unequal distribution across rural-urban areas needs to be balanced.[342]

4.3 Analysis of the Impact of Microfinancial Intermediation

Microfinance Institutions are often regarded by economists and practitioners of development aid as *"a manifestly effective means of improving the position of the poor"*.[343] The macroeconomic framework and the socioeconomic contextual factors make a difference to the extent to which MFIs attain the twin objectives of the alleviation of poverty and full cost-recovery.[344] Thus, regardless of their operational niche, practically all Microfinance Institutions pursue a double bottom line: fulfilling the institutional social mission on the one

338 Cf. Evers et al (2007), p. 9.
339 Cf. Menezes-Filho and Vascocellos (2007), p. 219f.
340 Cf. Jansson (2001), p. 3.
341 Cf. Menezes-Filho and Vascocellos (2007), p. 223ff.
342 Cf. Orlando and Pollack (2000), p. 9.
343 Montgomery and Weiss (2005), III.
344 Cf. Serra, Botti and Cherel-Robson (2007), p. 173f.

hand, whilst ensuring financial sustainability on the other hand.[345] To that effect, the pivotal role of Microfinance is exemplified by the critical triangle of Microfinance described in detail in Chapter 2.3 with the impact assessment of Microfinance at its tip. This Chapter surveys the evidence of impact of MFIs and contrasts the experiences from Asia and the Pacific, Sub-Saharan Africa, the Middle East and North Africa, Europe and Central Asia, and Latin America and the Caribbean delivering outlook on the trends in Microfinance. Generally, financial co-operatives, nongovernment organisations, and rural banks account as the financial intermediaries which are most deliberate about the provision of broad access of poor and low-income households to high-quality Microfinance products and services.[346] Institutional characteristics are emphasised with regard to the performance indicators *number of borrowers*, *gross loan portfolio, loan balance per borrower as per cent of GNI per capita*, *deposit per saver as per cent of GNI per capita, return on assets*, and *costs per borrower* to review and benchmark the global microfinancial landscape, with the results listed in Table 14 to Table 18.

	Financial Co-operatives	NGOs	Banks and NBFIs	All Institutions
No. of Borrowers (in thousand)	11.2	96.0	248.3	119.3
Gross Loan Portfolio (in USD million)	2.3	12.7	59.0	29.9
Loan Balance per Borrower as % GNI per Capita	28.9	17.1	91.6	48.5
Deposit per saver as % GNI per Capita	6.1	25.0	34.0	25.6
Return on Assets	8.9	-4.5	1.0	-0.7
Costs per Borrower (in USD)	37.9	32.0	75.0	50.0

Table 14: Microfinance in Asia and the Pacific.
Source: Helms (2006), p. 8.
Note: All figures in table are averages.

The Microfinance sector in Asia and the Pacific over all reveals a strong orientation towards the respective institutions' social missions, and hence Microfinance is considered as the key to socioeconomic development in developing and emerging countries located in this

[345] Cf. Pytkowska (2007), p. 192.
[346] Cf. Helms (2006), p. 6.

monitored geographical area.[347] It is important to note that Microfinance lending methods differ across Asia and the Pacific with individual lending schemes predominating the region of East Asia and the Pacific neglecting the implementation of village banks, while the mechanism of group lending prevails in South Asia.[348] In conjunction with this fact, the indicator of the population density holds the assumption that the financial intermediaries focus on the provision of Microfinance in densely populated rural areas comprising a total of 119.3 of borrowers (in thousand) and a gross loan portfolio of USD 29.9 million. Despite the rise of urban poverty and its negative implications, the high population density indicates the reduction of costs in the Microfinance procedure to an average of USD 50.00 per borrower.[349] Thus, Asia and the Pacific take the lead in international comparison with the two Asian giants India and China delivering the lion's share to the economic emergence of Asia.[350] But precisely these two emerging economies contribute only modestly to the sustainability of the Microfinance sector relative to their population size, number of Microfinance Institutions and their customers. The historical involvement of the respective government in the financial sector is the reason of this undersufficient financial development and economic growth.[351] In contrast, Indonesia and Bangladesh are described as the trailblazers for Microfinance with entirely different approaches to the delivery on pro-poor growth. Gertler et al (2003) draw positive conclusions for Microfinance in the context of the ability to decrease vulnerability from the consumption of Indonesian households and the exposure to health shocks. The geographical distance to a branch office of the commercial operating Bank Rakyat Indonesia is utilised as means of access to financial products and services demonstrating that ill health of adult family members has no effect shortfalls in consumption in areas of BRI presence.[352] In Bangladesh, the prioritisation of the social missions of the Grameen Bank and the Bangladesh Rural Advanced Committee foremost is in the limelight of the microfinancial sector achieving consistently high rates of repayment and major outreach to their target groups.[353] But the negative return on assets (ROA) of -0.7 as the ratio of a fiscal year's profit relative to the investment reveals the indispensability to improve the financial performance of financial institutions involved in Microfinance.[354] The shift of particular commercial banks to traditional community-based lending mechanisms is one solution on the path towards commercialisation of Microfinance and its long-run sustainability.[355]

347 Cf. Euromonitor International (2007), p. 5.
348 Cf. Cull et al (2006), p. 9.
349 Cf. Cull et al (2008), p. 23.
350 Cf. United Nations Development Programme (2007), p. 24.
351 Cf. Helms (2006), p. 8.
352 Gertler et al (2003). Cf. Montgomery and Weiss (2005), p. 18.
353 Cf. Charitonenko and Rahman (2002), p. 10.
354 Cf. Hamed (2007), p. 129.
355 Cf. Charitonenko and Rahman (2002), p. 12.

On the contrary, the provision of microfinancial products and services in Sub-Saharan Africa is under-developed. The results of the survey performed by Helms (2006), as depicted in Table 15, affirm this assumption and its implications.[356]

	Financial Co-operatives	NGOs	Banks and NBFIs	All Institutions
No. of Borrowers (in thousand)	11.6	17.9	24.3	17.4
Gross Loan Portfolio (in USD million)	4.3	2.3	4.5	3.7
Loan Balance per Borrower as % GNI per Capita	144.6	59.9	140.1	115.9
Deposit per saver as % GNI per Capita	32.7	25.0	85.6	49.8
Return on Assets	-1.6	-16.8	-3.9	-7.3
Costs per Borrower (in USD)	136.9	256.1	346.3	237.7

Table 15: Microfinance in Sub-Saharan Africa.
Source: Helms (2006), p. 10.
Note: All figures in table are averages.

Generally, it is evident that Sub-Saharan African financial institutions show the tendency to lend through solidarity group mechanisms.[357] And yet in greater detail, the post-colonial economies of the African continent reveal a diversified picture of the respective financial sector. Whilst the model of financial co-operatives predominates in French-speaking Africa reaching a considerable number of Microfinance clientele, reflected by 11.6 borrowers (in thousands), Portuguese-speaking Africa and English-speaking countries, except the Republic of South Africa, rather operate Microfinance programmes through specialized MFIs with 24.3 borrowers (in thousand).[358] Nevertheless, the number of total borrowers of 17.4 in Sub-Saharan Africa relative to 119.3 borrowers (in thousand) in Asia and the Pacific calls for a solid increase, i.e. the deepening of the outreach of Microfinance.[359] Considering the size of the gross loan portfolio as another indicator of outreach, Schreiner (2002) argues that only average loans of small volume enables Microcredits to outreach to poor and low-income

[356] Cf. Helms (2006), p. 10.
[357] Cf. Cull et al (2006), p. 9.
[358] Cf. Helms (2006), p. 10.
[359] Cf. Ferro Luzzi and Weber (2007), p. 154.

households.[360] The gross loan portfolio of Sub-Saharan Africa accounts to USD 3.7 million being the lowest in cross-regional comparison. Examining the most developed economy of the subcontinent, findings for South Africa reinforce this fact since approximately half of the adult population, with the majority being self-employed, experiences difficulties to access formal financial products and services.[361] Ghana also contributes to the few growth stories of Sub-Saharan Africa managing the economic turnaround associated with crucial progress in the reduction of poverty and inequality.[362] One decisive tool to reduce poverty is evidently the cost-effective access to suitable financial products and services. However, microfinancial intermediaries face high operational expenditures of USD 237.7 as costs per borrower and additionally negative return on assets of -7.3 valuating all institutions.[363]

The challenge of Microfinance in Sub-Saharan Africa is the reversal of historically colonial legacies responsible for marco- and socioeconomic biases. As a consequence, the establishment of sound economic governance enforces continuous economic growth and financial development, expanding its benefits to poor and low-income households.[364] In particular, Microfinance schemes of co-ordinated, transparent, and effective financial institutions implicate the opportunity to remove barriers to economic active participation.[365] Recent trend surveys name commercial operating banks like the Teba Bank from South Africa and the Kenyan Equity Bank to enter the regional market of Microfinance.[366]

With the influence of the Islam in the Middle East and North Africa and the natural boarder of the Sahara dividing the African continent, Microfinance across this region is regarded as charitable mechanism to overcome gender and income subordination in conjunction with poverty alleviation.[367] The following table views performance indicators characterising the Microfinance sector in Middle East and North Africa.

360 Schreiner (2002). Cf. Ferro Luzzi and Weber (2007), p. 154.
361 Cf. Helms (2006), p. 10.
362 Cf. Aryeetey and McKay (2007), p. 164.
363 Cf. Helms (2006), p. 10.
364 Cf. Aryeetey and McKay (2007), p. 164f.
365 Okidi et al (2007), p. 194.
366 Cf. Helms (2006), p. 10.
367 Cf. Helms (2006), p. 12.

	Financial Co-operatives	NGOs	Banks and NBFIs	All Institutions
No. of Borrowers (in thousand)	1.6	29.6	4.7	22.7
Gross Loan Portfolio (in USD million)	Not available	6.9	2.1	6.1
Loan Balance per Borrower as % GNI per Capita	Not available	17.4	35.7	20.6
Deposit per saver as % GNI per Capita	not available	2.4	0.8	2.1
Return on Assets	not available	85.9	258.4	116.4
Costs per Borrower (in USD)	not available	not available	not available	not available

Table 16: Microfinance in the Middle East and North Africa.
Source: Helms (2006), p. 12.
Note: All figures in table are averages.

Most notably, the donation and subsidy dependency of Microfinance Institutions in the Middle East and North Africa arises to 70 per cent not being part of the inclusive financial sector.[368] Moreover, financial intermediation in the market of Microfinance neither supports individual lending mechanisms nor solidarity group lending modes to reach its target group.[369] The average number of borrowers recorded for all institutions is 22.7 (in thousands) in this regional framework relatively small to 119.7 active Microfinance participants in the adjoining region of Asia and the Pacific. The narrow range of Microfinance products and services on offer neglect Microsavings and –insurances and majorly tailored to small and medium-sized enterprises instead of poor and low-income households but delivering the highest ROA in cross-regional comparison of 116.4.[370] Due to this fact, the deposit per saver as per cent of the gross national income per capita amounts to only 2.4 for NGOs, and even less, 0.8, for commercial banks and nonbank financial institutions, resulting in an average of 2.1 for all examined institutions. Additionally, the poverty lending approach to Microfinance is strongly regulated by the governments in the Middle East and North Africa. In the year 1999, the government of Morocco fixed a legal framework for the microfinancial sector with the promulgation of the Act No. 18-97 which stipulates the foundation of

[368] Cf. Helms (2006), p. 12.
[369] Cf. Cull et al (2006), p. 8.
[370] Cf. Brandsma and Hart (-), p. 13.

Microcredit Associations (MCA).[371] But Brandsma and Hart (-) debate that "*these efforts risk jeopardizing the healthy development of microfinance*" [372] detaining the growth of Microfinance in the long-run. The factual situation is that MFIs in the region currently experience critical negative impacts after initial growth and are subject to consolidation and in a further step restructuring to effectively contribute to poverty reduction, both in income and non-income terms.[373]

Nonetheless, the microfinancial sector in the Middle East and North Africa reveals exceptional performance with 50 per cent annual average rate of growth. Reasons for this rapid economic growth and financial development are the increased development of products and services for the poor on the one hand, and the down-market shift of particularly commercially operating financial institutions on the other hand. Especially the emerging economies of Morocco and Egypt contribute to the growth of the microfinancial sector.[374] Al Amana, the largest MFI of Morocco, for instance serves more than 160,000 borrowers via the group lending scheme whilst being supported by the US Agency for International Development.[375] The combination of the principles of Islamic finance and those of Microfinance are identified to extent the access to common financial products and services to unprecedented levels across the Muslim influenced region gaining international visibility.[376]

The reluctance of financial institutions, particularly those from the formal financial sector, to promote Microfinance as pivotal tool in development aid is most evident in Europe and Central Asia.[377] The region is perceived to count as the newcomer in the market of Microfinance. The proxies of institutional performances undermine this fact with the respective outcomes depicted in Table 17.[378]

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371 The Microcredit Association *"combines the advantages of not-for-profit associations and some features of financial institutions. […] Microcredit cannot exceed a maximum of approximately US$ 5,600. […] MCAs can also conduct non-financial activities such as training, advising and providing technical assistance to their clients."* Meknassi (2007), p. 184.

372 Brandsma and Hart (-), p. 13.

373 Cf. Brandsma and Hart (-), p. 13.

374 Cf. Helms (2006), p. 12.

375 Cf. Meknassi (2007), p. 184.

376 Cf. Consultative Group to Assist the Poor (2008), p. 1.

377 Cf. Evers et al (2007), p. 9.

378 Cf. Helms (2006), p. 11.

	Financial Cooperatives	NGOs	Banks and NBFIs	All Institutions
No. of Borrowers (in thousands)	0.7	5.2	5.1	4.8
Gross Loan Portfolio (in USD million)	1.3	4.2	12.4	7.0
Loan Balance per Borrower as % GNI per Capita	52.8	77.6	264.6	144.3
Deposit per saver as % GNI per Capita	87.2	not available	92.9	89.6
Return on Assets	-0.2	-0.1	1.9	0.6
Costs per Borrower (in USD)	392.6	263.7	362.0	309.8

Table 17: Microfinance in Europe and Central Asia.
Source: Helms (2006), p. 11.
Note: All figures in table are averages.

In-depth analyses of the region lead to the acknowledgement of the sector domination of nongovernment institutions and other financial institutions primarily providing Microcredits with the exception of the ProCredit banks[379] delivering a variety of products and service to poor and low-income households.[380] Nevertheless, an average of only 4.8 Microfinance participants (in thousands) are counted for Europe and Central Asia verifying the need for improvement in outreach to target group and its impact. The legal form of the institution, whether financial co-operative, non government organisation, or commercial bank and nonbank financial institution, does not determine the depth of outreach.[381] Moreover, individual based lending modes and group lending schemes both account as suitable approaches to further outperform the four other regions in terms of self-sufficiency of the financial institutions.[382] Return on assets is the considerable means of financial self-sufficiency with a positive average value for all institutions monitored of 0.6. Contrary to Europe and Central Asia, the economic framework of low-income economies enables higher ROA since Microfinance Institutions can guard higher yields. The Middle East and North Africa depict such high return on assets with 116.4 whilst the region of Sub-Saharan Africa

379 *"The 22 ProCredit banks are subsidiaries of ProCredit Holding. These institutions share a common mission and corporate values, and focus on providing very small, small and medium-sized enterprises with reliable access to credit and other financial services."* ProCredit Holding (2008).
380 Cf. Helms (2006), p. 11.
381 Cf. Pytkowska (2007), p. 195.
382 Cf. Cull et al (2006), p. 17.

exhibits a negative ROA of -7.3 due to the lack of adequate cost control.[383] The *Human Development Report 2007/2008* of the United Nations confirms elevated standards of education, health and income triggering decreasing rates of poverty and inequality. This positive development of the macro- and socioeconomic country settings explain the large loan balance per borrower as per cent of the GNI per capita of 144.3. But coexistent, the future viability of the microfinancial sector is threatened by exorbitant operational expenditures measured by the performance indicator of costs per borrower amounting to USD 309.8.[384]

Public-private partnerships and a market-orientated approach in Europe and Central Asia further stipulate the market for Microfinance and the increased link to the commercial and formal financial sector. Yet, donor dependency is still evident with the focus on the reputation rather than the social mission of the Microfinance programme.[385] However, to conclude, Microfinance faces the significant opportunity to extent the outreach to poor and low-income households across Europe and Central Asia.[386]

On the opposite, viable commercial Microfinance evidently has its longest tradition in Latin America and the Caribbean. To visualise the status-quo of Microfinance schemes, indicators of the financial performance of Microfinance Institutions across the region are presented in Table 18.

383 Cf. Pytkowska (2007), p. 195.
384 Cf. United Nations Development Programme (2007), **p. 241.**
385 Cf. Evers et al (2007), p. 27ff.
386 Cf. Helms (2006), p. 11.

	Financial Co-operatives	NGOs	Banks and NBFIs	All Institutions
No. of Borrowers (in thousand)	12.6	17.0	36.0	21.0
Gross Loan Portfolio (in USD million)	35.2	10.1	36.9	22.1
Loan Balance per Borrower as % GNI per Capita	72.2	47.3	71.7	58.4
Deposit per saver as % GNI per Capita	30.9	55.3	213.4	129.3
Return on Assets	-0.3	-1.0	1.4	-0.1
Costs per Borrower (in USD)	156.2	150.3	224.7	176.1

Table 18: Microfinance in Latin America and the Caribbean.
Source: Helms (2006), p. 9.
Note: All figures in table are averages.

The poor population around the globe almost exclusively concentrates in the developing and emerging countries of Asia and the Pacific, Africa, and Latin America and the Caribbean with the main goal of Microfinance to generate adequate economic statuses for poor and low-income households.[387] The total number of borrowers of all institutions surveyed in this cross-regional comparison amounts to 21.0 (in thousand). The effectiveness of Microfinance on the regional macroeconomy and the socioeconomic framework relative to Asia and the Pacific has reached less down the income scale. Nevertheless, the gross loan portfolio of Latin America and the Caribbean is USD 22.1 million with the major part of Microfinance customers being urban micro-entrepreneurs and low outreach to rural self-employed.[388] Moreover, the tender process enforces the market-orientation of Microfinance on the path towards commercialisation and decreases the dependency of donations and subsidisation in the long-run. In turn, these incentives are to increase the outreach to the poor even in rural areas of the monitored region.[389] Latin America and the Caribbean depicts the largest deposit per saver as per cent of gross national income per capita of 129.3 in the cross-regional comparison indicting the regional comparative advantage. The compensation from the formal financial sector evading to informal lending groups, local moneylenders, local credit unions or

[387] Cf. Euromonitor International (2007), p. 5.
[388] Cf. Montgomery and Weiss (2005), p. 18.
[389] Cf. Merino (2007), p. 208.

NGOs specialising in the field of financing the poorest of the poor.[390] Helms (2006) concludes with the overall negative result on return on assets for all financial institutions of -0.1 comparable to Asia and the Pacific with negative ROA of -0.7. Moreover, the cost per borrower rises to USD 176.1 clearly indicating the obstacles to the development of a dynamic Microfinance Institution sector with a commercial orientation.[391]

Thus, the market for Microfinance in Latin America and the Caribbean is not yet matured offering the chance for further economic growth and financial development of the targeted clientele.[392]

390 Cf. Jansson (2001), p. 1.
391 Cf. Montgomery and Weiss (2005), p. 26.
392 Cf. Montgomery and Weiss (2005), p. 26.

5 Critical Evaluation of Microfinance

Economic growth and financial development are marked by a history of acceleration and deceleration. Microfinance as pivotal tool of development aid strategies contributes to solid macro- and socioeconomic achievements but also to stagnation and even tragic outgrowths.[393]

Opponents of the Microfinance mechanism argue that the provision of financial services and s products ervices to poor and low-income households is just an inducer to poverty reduction, and the fight against gender and income subordination.[394] Eminently, the empowerment of women as major objective of Microfinance programmes is constrained due to the limited access of the female working force to labour markets thus being excluded from further investments. Anyhow, their self-employment and the establishment of small and medium-sized enterprises are the loophole to the poverty trap, as advocates specify.[395] Armendáriz de Aghion and Morduch (2005) critically response that *"microfinance is neither a panacea nor a magic bullet, and it cannot be expected to work everywhere of for everyone"*.[396] Certainly, the symptoms of inequality and poverty as well as their negative impacts are treated but the initial cause is not antagonised at its grassroots.[397] Overestimations of the social and economic benefits of Microfinance eventually lead to unrealistic expectations and disillusionment of the Microfinance clientele, financial institutions, donors and policymakers, and practitioners and researchers restraining the pace of economic growth and financial development.[398] Indeed, the *"Micromagic"*[399] has gained unexpected visibility since the International Year of Microcredit in 2005 and the award of the Noble Peace Prize 2006 to the Grameen Bank and its founder Prof. Muhummad Yunus.[400] And yet, Microfinance *"[...] is a great idea with a problem: the bank that made it famous"*.[401] Whilst financial institutions of the formal sector join the path of Microfinance commercialisation to enlarge their customer base, especially government officials and practitioners of Microfinance Institutions regard the dual objectives of poverty eradication and financial profitability as conflicting rather than reciprocally efficient. Further, the lack of institutional capacities of MFIs serving as financial intermediaries fosters negative perceptions of the augmenting commercialisation of the microfinancial sector. [402] Interest rates and repayment schedules signify importance in the building of financial self-sufficient institutions. Inefficient financial markets evince interest

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[393] Cf. Stern et al (2005), p. 33.
[394] Cf. Cohen (-), p. 198.
[395] Cf. Armendáriz de Aghion and Morduch (2005), p. 4.
[396] Armendáriz de Aghion and Morduch (2005), p. 4.
[397] Cf. Wright (2000), p. 38.
[398] Cf. Cohen (-), p. 198ff.
[399] Boudreaux and Cowen (2008), p. 1.
[400] Cf. Boudreaux and Cowen (2008), p. 1.
[401] Pearl and Phillips (2008), p. 412.
[402] Cf. Charitonenko and Rahman (2002), x.

rates far above market level jeopardising the participation of the core poor in Microfinance.[403] The exposure to economic shocks and thus the risk of loan repayment discourages poor and low-income households who fear social exclusion from their communities.[404] Foremost, the Economist (2008b) raises the question *"Is it acceptable to profit form the poor?"*[405] High interest rates and the argument of high transactions costs necessary to operate cost-effectively enforce the *"monopolistic exploitation of the poor"*[406] of the Microfinance Sector. It is again Prof. Yunus who advocates the righteousness of Microfinance campaigning for an agreement of common international standards and particularly the publication of charges to the Microfinance clientele.[407] However, Microfinance is not the nostrum to deficits in development which is utilised in equal measure in international context. The unsuccessful replications of the Grameen Bank in other countries than Bangladesh back this critical proposition.[408] Although, literature predominantly indicates positive contributions of Microfinance to economic growth and financial development in general terms, there are still relatively sparse solid and reliable studies conducted with the focus on the long-term impact, social sustainability, outreach, and cost-effectiveness of Microfinance schemes.[409] *"There is not yet a widely acclaimed study that robustly shows strong impacts, but many studies suggest the possibility."*[410]

Aid, growth, poverty reduction and equality are the important objectives of Microfinance. Initially, economic theory held the assumption that economic growth and financial development automatically lead to substantial poverty reduction, and the defeat of financial and socio-economic inequality. However, active involvement paired with co-operation and technical assistance is required to increase the efficiency of sound strategies of development aid.[411] It is here where Microfinance continuously takes greater significance. According to Richard Weingarten, the Executive Secretary of the United Nations Capital Development Fund, Microfinance primarily patronises the following three goals of socio-economic development:

1. Promotion of economic growth,
2. creation of employment for the generation of income, and
3. eradication of poverty.[412]

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403 Cf. von Pischke (2008), p. 3.
404 Cf. Cohen et al (2000), p. 36.
405 The Economist (2008b).
406 The Economist (2008b).
407 Cf. The Economist (2008b).
408 Cf. Armendáriz de Aghion and Morduch (2005), p. 4.
409 Cf. Montgomery and Weiss (2005), p. 26.
410 Armendáriz de Aghion and Morduch (2005), p. 4.
411 Cf. Szirmai (2005), p. 604ff.
412 Cf. Credit Suisse (2007).

In general, current discussions and recent research on the impact and outreach of Microfinance programmes indicate distinguished lines of argumentation. The optimistic view confirms with the findings of the UNCDF on suitable and effective Microfinance activities comprising explicitly positive economic and social implications for the target group of the poor.[413] Moreover, recent research clearly reports the extent of vulnerability to socio-economic shocks of poor people living on or below the adjusted USD 1.00 per day threshold. These shocks have their proximate cause namely in bad health, scarce education, crime or bad weather producing massive claims on the limited collateral and resources of the communities or families pertained. The absence of suitable financial products and services drives poor and low-income households deeper in the poverty trap. With poverty of parent generations having reproduced poverty, it is Microfinance as tool of the development imperative to break this vicious circle.[414] The reduction of the Microfinance clientele's vulnerability to economic stress and shocks, the building of small viable businesses and ergo self-employment, and therefore the increase in income, characterise Microfinance as powerful tool for the empowerment of the poor.[415] Proponents of Microfinance emphasise the empowerment of poor women enabling them to function as *"economic agents of change"*[416] reducing their public seclusion whilst improving their bargaining power, confidence and resources access.[417] The multi-dimensions of inequality and poverty are coped with through the provision of Microfinance products and services. Chronic food security and thus sufficient nutrition, the improvement of education standards, and the access to healthcare account as the positive outcomes overcoming asset and income deficits of poor and low-income households.[418] The myth of lacking repayment discipline is ruled out by the tabulations of MicroVest (2007) resulting in an average on-time rate of repayment of 98 per cent globally.[419] While the monthly published balance sheet of the Grameen Bank records a repayment rate of 89 per cent on small uncollateralised loans.[420]

Despite all critics, Microfinance is an effective development aid instrument, as Kofi Annan concludes *"Microfinance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change peoples' lives for the better – especially the lives of those who need it most".*[421]

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413 Cf. Giesbert (2008), p.6.
414 Cf. Armendáriz de Aghion and Morduch (2005), p. 34ff.
415 Cf. Cohen et al (2000), p. 78ff.
416 MIX Market (2005).
417 Osmani (1998). Cf. Cohen et al (2000), p. 10f.
418 Cf. Zeller et al (1997), p. 8ff.
419 Cf. MicroVest (2007).
420 Cf. Ashok and Sjöström (2004), 217. For detailed information, the interested reader is referred to Table A 4 *Balance Sheet of the Grameen Bank, monthly update for November in USD* in the Appendix.
421 Mercy Corps Global Envision (2008).

6 Conclusion and Future Prospects

The objective of the presented diploma thesis is the analytical study of Microfinance in developing, emerging, and advanced economies. Thereto, the conceptual framework of Microfinance is initially introduced providing detailed information on recent definitions and approaches to this major tool in development aid on its path towards commercialisation.[422] The market mechanism of economic growth and financial development is elucidated by the theoretical models of McKinnon and Shaw (1973), and Stiglitz and Weiss (1981) in contrast to the practical grassroots approach of the Bangladeshi Grameen Bank. The cross-regional analysis of Asia and the Pacific, Sub-Saharan Africa, the Middle East and North Africa, Europe and Central Asia, and Latin America and the Caribbean forms the core of the thesis examining strengths and weaknesses, and substantial differences and regional trends.
With regard to trend lines in Microfinance, the financial sector faces substantial challenges in the building of inclusive financial system pushing out the boundary of Microfinance. These challenges, pertaining scale, depth, and outreach, are

1. "*Scaling up quality financial services to serve large numbers of people,*
2. *reaching increasingly poorer and remote people (depth), and*
3. *lowering costs to both clients and financial service providers (cost)*".[423]

The connoting field of innovation in Microfinance is the implementation of suitable new technologies to decrease costs of transaction and to exploit new markets for financial services and products adequate for poor and low-income households particularly in geographical remote regions which have deficits in their infrastructure.[424] The adaption of suitable technologies facilitates the broadened access to the array of financial services and products in the microfinancial sector and the outreach to the uneducated and illiterate poor enabling them to carry out low priced financial transactions. Microfinance Institutions particularly in Latin America and the Caribbean, and Asia and the Pacific perform pioneer work to bolster their market shares.[425] The impact of leveraged Information and Communication Technology (ICT) supports cardbased and mobile telephony technologies for payments and transfers of remittances in *"Microfinance 2.0"*[426]. Thus, innovations in the mobile phone sector revolutionise the approach to microfinancial services and products because of the substantial deduction of transaction costs and the affordable utilisation of the poor living in rural regions.[427] In addition, the domestic and international flow of money transfers reveals the

[422] Cf. Vonderlack and Schreiner (2001), p. 5ff.
[423] Cf. Helms (2006), p. 113.
[424] Cf. Ledgerwood (1998), p. 89.
[425] Cf. Credit Suisse (2007). And cf. Mendoza and Vick (2008), p. 7.
[426] Mendoza and Vick (2008), p. 1.
[427] Cf. Mendoza and Vick (2008), p. 11f.

opportunity to expand Microfinance products and services in strategies of development aid. The growing volume of remittances circulating in and between developing, emerging, and advanced economies avails the possibility to become a capable tool for financial development and economic growth. Hence, Microfinance Institutions accept the new challenge to accelerate economic and societal progress for all instead the limited support of poor and low-income individuals.[428]

Future prospects of Microfinance determine strong growth because the call of one billion people who live on or below the USD 1.00 a day threshold for financial products and services rises significantly. Further, forecasts estimate that the quantity of poor and low-income individuals will amount to approximately six billion by 2040 ruling out the Millennium Development Goals of the United Nations and their objective to halve poverty by the year 2015.[429] *"The robust growth in the size of this market will attract greater business interest from companies in a wide range of sectors, from banking and technology to retailing."*[430] The integration of microfinancial intermediation in financial markets, specifically in formal banking sectors, of developing, emerging, and advanced countries and in addition the augmenting interest of other industries in Microfinance increase the awareness and alert to socio-economic development and progress. From this it deduces that employment and the income generation of poor and low-income human beings, and small and medium-sized enterprises on the one hand imply the break of the vicious circle of poverty.[431] Whilst, on the other hand, profit-orientated companies operating in the private sector identify immense gains in turnover.[432]

Michael Chu, a former Wall Street financial specialist and president of the ACCIÓN International, outlines the future of Microfinance as follows: *"Microfinance today stands at the threshold of its next major stage, the connection with the capital markets is a watershed lies in the fact that, if accomplished, it will make the outreach of microfinance to date… a mere prologue for what will come. The millions reached today will increase a hundredfold. This is nothing short of changing the very nature of banking, from servicing the top 25 or 30 per cent (at the most) of the population of the developing world to meeting the demand of the rest. It is reclaiming of finance for society at large – the true democratization of capital."*[433]

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428 Cf. Credit Suisse (2007).
429 Cf. Euromonitor International (2007), p. 5f. And cf. United Nations Millennium Development Goals (2008).
430 Euromonitor International (2007), p. 5f.
431 Cf. Armendáriz de Aghion and Morduch (2005), p. 34ff.
432 Cf. Euromonitor International (2007), p. 6.
433 Robinson (2001), p. 24f.

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Appendix

Table A 1: Country Classification according to the International Monetary Fund.
Source: International Monetary Fund (2008).

Advanced Economies		
Australia	Iceland	Portugal
Austria	Ireland	Singapore
Belgium	Israel	Slovenia
Canada	Italy	Spain
Cyprus	Japan	Sweden
Denmark	Korea	Switzerland
Finland	Luxembourg	Taiwan, Province of China
France	Malta	China
Germany	Netherlands	United Kingdom
Greece	New Zealand	United States
Hong Kong SAR	Norway	

Major Advanced Economies		
Canada	Italy	United States
France	Japan	Germany
United Kingdom		

Euro Area		
Austria	Germany	Malta
Belgium	Greece	Netherlands
Cyprus	Ireland	Portugal
Finland	Italy	Slovenia
France	Luxembourg	Spain

European Union		
Austria	Germany	Netherlands
Belgium	Greece	Poland
Bulgaria	Hungary	Portugal
Cyprus	Ireland	Romania
Czech Republic	Italy	Slovak Republic
Denmark	Latvia	Slovenia
Estonia	Lithuania	Spain
Finland	Luxembourg	Sweden
France	Malta	United Kingdom

Newly Industrialized Asian Economies	
Hong Kong SAR	Singapore
Korea	Taiwan, Province of China

Other Advanced Economies (Advanced economies excluding G7 and euro area)		
Australia	Israel	Sweden
Denmark	Korea	Switzerland
Hong Kong SAR	New Zealand	Taiwan, Province of China
Iceland	Norway	Singapore

Emerging and Developing Economies		
Afghanistan, Republic of[2]	Gabon	Papua New Guinea
Albania	Gambia, The	Paraguay
Algeria	Georgia	Peru
Angola	Ghana	Philippines
Antigua and Barbuda	Grenada	Poland
Argentina	Guatemala	Qatar
Armenia	Guinea	Romania
Azerbaijan	Guinea-Bissau	Russia
Bahamas, The	Guyana	Rwanda
Bahrain	Haiti	Samoa
Bangladesh	Honduras	São Tomé and Príncipe
Barbados	Hungary	Saudi Arabia
Belarus	Iran, I.R. of	Senegal
Belize	Iraq[1,2]	Serbia[2]
Benin	Jamaica	Sierra Leone
Bhutan	Jordan	Slovak Republic
Bolivia	Kazakhstan	Solomon Islands
Botswana	Kenya	Somalia[1,2]
Bosnia and Herzegovina[2]	Kiribati	South Africa
Brazil	Kuwait	Sri Lanka
Brunei Darssalam[2]	Kyrgyz Republic	St. Kitts and Nevis
Bulgaria	Lao PDR	St. Lucia
Burkina Faso	Latvia	St. Vincent and the Grenadines
Burundi	Lebanon	Sudan
Cambodia	Lesotho	Suriname
Cameroon	Liberia[2]	Swaziland
Cape Verde	Libya	Syrian Arab Republic
Central African Republic	Lithuania	Tajikistan
Chad	Macedonia, FYR	Tanzania
Chile	Malawi	Thailand
China	Malaysia	Timor-Leste, Dem. Rep. of[2]
Colombia	Maldives	Togo
Comoros	Mali	Togo
Congo, Dem. Rep. of	Mauritania	Tonga
Congo, Rep. of	Mauritius	Trinidad and Tobago
Costa Rica	Mexico	Tunisia
Côte d'Ivoire	Mongolia	Turkey
Croatia	Montenegro, Rep. of[2]	Turkmenistan
Czech Republic	Morocco	Ukraine
Dominica	Mozambique, Rep. of	United Arab Emirates
Dominican Republic	Myanmar	Uruguay
Ecuador	Namibia	Uzbekistan
Egypt	Nepal	Vanuatu
Equatorial Guinea	Nicaragua	Venezuela, Rep. Boliv. de
Estonia	Niger	Vietnam
Eritrea[2]	Nigeria	Yemen
Ethopia	Oman	Zambia
Ethopia	Pakistan	Zimbabwe[2]
Fiji	Panama	

[1] Because of data quality concerns, this country is not released in the WEO database.

[2] Because of insufficient data, this country is not included in the WEO aggregates.

Africa		
Algeria	Ethiopia	Niger
Angola	Gabon	Nigeria
Benin	Gambia, The	Rwanda
Botswana	Ghana	São Tomé and Príncipe
Burkina Faso	Guinea	Senegal
Burundi	Guinea-Bissau	Seychelles
Cape Verde	Kenya	Sierra Leone
Central African Republic	Lesotho	Somalia[1,2]
Chad	Liberia[2]	South Africa
Comoros	Madagascar	Sudan
Congo, Dem. Rep. of	Malawi	Swaziland
Congo, Rep. of	Mauritania	Tanzania
Côte d'Ivoire	Mozambique, Rep. of	Uganda
Equatorial Guinea	Namibia	Zimbabwe[2]
Eritrea[2]		
[1] Because of data quality concerns, this country is not released in the WEO database.		
[2] Because of insufficient data, this country is not included in the WEO aggregates.		

Africa, Sub-Sahara
Africa excluding Algeria, Morocco, and Tunisia.

Central and Eastern Europe	
Albania	Lithuania
Bosnia and Herzegovina[2]	Macedonia, FYR
Bulgaria	Montenegro, Rep. of[2]
Croatia	Poland
Czech Republic	Romania
Estonia	Serbia[2]
Hungary	Slovak Republic
Latvia	Turkey
[2] Because of insufficient data, this country is not included in the WEO aggregates.	

Commonwealth of Independent States (CIS) and Mongolia	
Armenia	Mongolia
Azerbaijan	Russia
Belarus	Tajikistan
Georgia	Turkmenistan
Kazakhstan	Ukraine
Kyrgyz Republic	Uzbekistan
Moldova	

Developing Asia	
Afghanistan, Rep. of[2]	Myanmar
Bangladesh	Nepal
Bhutan	Pakistan
Brunei Darussalam[2]	Papua New Guinea
Cambodia	Philippines
China	Samoa
Fiji	Solomon Islands
India	Sri Lanka
Indonesia	Thailand
Kiribati	Timor-Leste, Dem. Rep. of[2]

Lao PDR	Tonga
Malaysia	Vanuatu
Maldives	Vietnam
[2] Because of insufficient data, this country is not included in the WEO aggregates.	

ASEAN-5
Indonesia, Malaysia, Philippines, Thailand, and Vietnam

Middle East	
Bahrain	Libya
Egypt	Oman
Iran, I.R. of	Qatar
Iraq[1,2]	Saudi Arabia
Jordan	Syrian Arab Rep.
Kuwait	United Arab Emirates
Lebanon	Yemen
[1] Because of data quality concerns, this country is not released in the WEO database.	
[2] Because of insufficient data, this country is not included in the WEO aggregates.	

Western Hemisphere		
Antigua and Barbuda	Dominican Republic	Paraguay
Argentina	El Salvador	St. Kitts and Nevis
Bahamas, the	Grenada	St. Lucia
Barbados	Guatemala	St. Vincent and the Grenadines
Belize	Guyana	Suriname
Bolivia	Haiti	Trinidad and Tobago
Brazil	Honduras	Uruguay
Costa Rica	Nicaragua	Venezuela, Rep. Boliv. De
Dominica	Panama	

Table A 2: Objectives of the International Year of Microcredit.
Source: Adapted depiction. Cf International Year of Microcredit (2005b).

No	Key Objective
1	Assess and promote the contribution of microfinance and microcredit to the MDGs.
2	Increase public awareness and understanding of microfinance and microcredit as vital parts of the development equation.
3	Promote inclusive financial sectors.
4	Support sustainable access to financial services.
5	Encourage innovation and new partnerships by promoting and supporting strategic partnerships to build and expand the outreach and success of microcredit and microfinance.

Table A 3: Millennium Development Goals of the United Nations.
Source: Adapted depiction. Cf. United Nations Millennium Development Goals (2008).

Goal	Its Targets
Goal 1 Eradicate extreme poverty & hunger	Target 1 Halve, between 1990 and 2015, the proportion of people whose income is less than USD 1 a day. Target 2 Achieve full and productive employment and decent work for all, including women and young people. Target 3 Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
Goal 2 Achieve universal primary education	Target 1 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
Goal 3 Promote gender equality and empower women	Target 1 Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.
Goal 4 Reduce child mortality	Target 1 Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.
Goal 5 Improve maternal health	Target 1 Reduce by three quarters the maternal mortality ratio. Target 2 Achieve universal access to reproductive health.
Goal 6 Combat HIV/AIDS, Malaria and other disease	Target 1 Have altered by 2015 and begun to reverse the spread of HIV/AIDS. Target 2 Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it. Target 3 Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.
Goal 7 Ensure environmental sustainability	Target 1 Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources. Target 2 Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss. Target 3

	Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation. Target 4 By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.
Goal 8 Develop a global partnership for development	Target 1 Address the special needs of least developed countries, landlocked countries and small island developing countries. Target 2 Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Target 3 Deal comprehensively with developing countries' debt. Target 4 In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries. Target 5 In cooperation with the private sector, make available benefits of new technologies, especially information and communications.

Table A 4: Balance Sheet of the Grameen Bank.
Source: Monthly update for November 2008 in USD. Grameen Bank (2008b).

Sl No	Particulars	Million USD
1.0	Cumulative Amount Disbursed Since Inception	7,524.68
2.0	Cumulative Amount Repaid Since Inception	6,706.09
3.0	Amount Disbursed this Month	96.89
4.0	Amount Repaid this Month	75.80
5.0	Outstanding Loan	
	5.1 Basic Loan	589.56
	5.2 Flexible Loan [a]	28.18
	5.3 Housing Loan	3.23
	5.4 Other Loans	17.19
	5.5 Total [b]	638.16
6.0	Rate of Recovery [c]	98.30
7.0	Total Outstanding of Borrowers Missing 5 to 9 Consecutive Instalments [d]	
	7.1 Basic Loan	3.28
	7.2 Flexible Loan	2.68
	7.3 Total	5.96
8.0	Overdue Loan [e]	
	8.1 Basic Loan [f]	9.088
	8.2 Flexible Loan	8.332
	8.3 Housing Loan	0.431
	8.4 Other Loans	0.013
	8.5 Total	17.863
9.0	Microenterprise Loan (Cumulative)	
	9.1 No of Microenterprise Loans	1,618,326
	9.2 Amount Disbursed	585.92
	9.3 Amount Repaid	456.07
10.0	Balance of Deposits	
	10.1 Members' Deposit	465.75
	10.2 Non-Members' Deposit	391.31
	10.3 Total	857.06
11.0	Deposits to Outstanding	
	11.1 Deposits as Per centage of Outstanding Loans	134
	11.2 Deposits and Own Resources as Per centage of Outstanding Loans	148
	11.3 No of Branches with more in Deposits than in Outstanding Loans	1,460
12.0	Beggar Members	
	12.1 No of Beggar Members	89,591
	12.2 Amount Disbursed (Cumulative)	1.87
	12.3 Amount Repaid (Cumulative)	1.35
	12.4 Amount of Savings (Balance)	0.11
13.0	Cumulative Number of Village Phones	353,206
14.0	Cumulative Number of Houses Built with Housing Loans	664,087

15.0	Life Insurance Fund (Cumulative)	
	15.1 No. of Deaths Among all Borrowers	109,808
	15.2 Amount paid out from Life Insurance Fund	4.14
16.0	Loan Insurance	
	16.1 Balance in Loan Insurance Savings	61.24
	16.2 No of Deaths Among Insured Borrowers (Cumulative)	112,335
	16.3 Amount of Outstanding Principal and Interest of the Deceased Borrowers paid out from Insurance Fund (Cumulative)	12.29
17.0	Higher Education Loan (Cumulative)	
	17.1 No of Female Students	6,421
	17.2 No of Male Students	23,688
	17.3 Total	30,109
	17.4 Amount Disbursed (Female)	2.90
	17.5 Amount Disbursed (Male)	11.45
	17.6 Total	14.35
18.0	Scholarship (Cumulative)	
	18.1 Scholarship Recipient (Female)	40,792
	18.2 Scholarship Recipient (Male)	29,198
	18.3 Total	69,990
	18.4 Scholarship Amount (Female)	0.72
	18.5 Scholarship Amount (Male)	0.53
	18.6 Total	1.26
19.0	Number of Members	
	19.1 Female	7,412,600
	19.2 Male	235,012
	19.3 Total	7,647,612
20.0	Number of Groups	1,208,263
21.0	Number of Centres	140,762
22.0	Number of Villages	83,415
23.0	Number of Branches	2,536
24.0	Number of Branches with Computerized Accounting and MIS	2,522

(a) On the last day of each month, 50 per cent provision is made against the outstanding amounts of flexible loans with age of less than two years, and 100 per cent provision is made against the outstanding amounts of flexible loans with age of two years and more. The amount of a flexible loan which completes the third year is written off exactly on the date following its completion.

(b) This figure is not exactly equal to the difference between items 1 and 2 because of difference in conversion rates.

(c) Amount repaid as a per centage of amount due.

(d) If a borrower misses ten consecutive instalments, the entire outstanding loan is treated as an overdue loan.

(e) On the last day of each month, 100 per cent provision is made against all overdue loans. Entire outstanding amount of overdue loans are written off one year after they become overdue.

(f) In case of one-year loan, if the borrower fails to repay half the loan amount, with interest, within 26 weeks, entire unrepaid amount becomes overdue. In case of loans with longer duration, if the borrower fails to repay the total principal amount and interest scheduled to be repaid within each segment of 26 weeks, entire unrepaid amount falls overdue.

Note: Current Exchange Rate : USD 1.00 = Tk. 68.54.

Table A 5: Microfinance Benchmarks.

Source: MicroBanking Bulletin (2007).

Median	INSTITUTIONAL CHARACTERISTICS					FINANCING STRUCTURE					
PEER GROUP	Number of MFIs	Age	Total Assets	Offices	Personnel	Capital/ Asset Ratio	Commercial Funding Liabilities Ratio	Debt to Equity	Deposits to Loans	Deposits to Total Assets	Portfolio to Assets
Units		nb	US$	nb	nb	%	%	x	%	%	%
Year:	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
All MFIs	890	10	6.897.451	10	92	22,5	71,9	3,2	0,0	0,0	77,9
SIMPLE PEER GROUPS											
Age											
New	144	3	3.266.182	7	70	21,9	68,6	3,0	0,0	0,0	71,9
Young	203	7	5.290.088	12	72	27,5	62,0	2,4	0,0	0,0	80,4
Mature	543	14	9.682.212	12	115	20,9	76,8	3,5	0,0	0,0	77,8
Charter Type:											
Bank	65	9	156.868.709	37	717	13,5	101,2	5,8	54,4	35,6	69,0
Credit Union	123	11	4.602.738	7	35	16,4	92,3	4,6	76,1	58,0	79,5
NBFI	284	8	10.313.782	13	126	23,1	71,3	3,3	0,0	0,0	79,8
NGO	346	11	4.124.059	10	78	35,8	47,3	1,6	0,0	0,0	79,3
Rural Bank	71	16	5.293.614	5	60	12,1	122,8	6,7	100,5	68,0	66,0
Financial Intermediation											
Non FI	495	9	5.288.946	10	84	31,5	56,4	2,0	0,0	0,0	81,1
Low FI	112	10	6.874.537	16	130	26,9	37,5	2,5	8,5	5,7	76,8
High FI	283	12	10.487.199	10	105	14,5	105,1	5,5	83,2	60,4	72,3
Methodology:											
Individual	277	11	9.832.132	9	72	18,4	86,6	4,2	40,6	26,5	79,6
Individual/ Solidarity	440	10	7.110.642	10	96	25,6	66,0	2,7	0,0	0,0	74,8
Solidarity	79	7	4.009.218	13	90	22,0	33,3	2,2	0,0	0,0	74,2
Village Banking	94	9	5.111.080	13	130	32,8	61,6	1,8	0,0	0,0	79,4
Outreach											
Small (Outreach)	424	9	2.313.530	5	34	26,1	65,3	2,4	0,0	0,0	77,8
Medium (Outreach)	228	10	8.727.301	13	133	26,7	65,7	2,6	0,0	0,0	78,0
Large (Outreach)	238	12	45.711.700	48	533	15,7	82,2	5,1	0,1	0,1	78,7
Profit Status											
Profit	309	9	12.335.829	14	166	17,6	90,9	4,4	22,4	16,3	73,5
Not for Profit	581	10	4.972.096	9	70	27,0	61,8	2,3	0,0	0,0	79,6
Region:											
Africa	159	10	5.060.916	10	92	25,0	62,4	2,7	24,8	16,3	62,9
Asia	244	11	5.359.517	15	134	15,2	80,7	4,9	2,1	1,4	74,8
ECA	158	8	7.012.623	9	52	23,3	70,9	3,2	0,0	0,0	86,0
LAC	283	12	8.301.590	9	89	26,4	74,2	2,7	0,0	0,0	80,9
MENA	46	8	8.862.253	12	102	50,4	48,9	0,9	0,0	0,0	78,1
Scale											
Small (Scale)	311	9	1.519.969	4	31	31,6	55,8	1,8	0,0	0,0	72,6
Medium (Scale)	264	9	6.633.575	10	92	25,0	66,4	2,9	0,0	0,0	79,0
Large (Scale)	315	12	42.261.994	30	368	17,2	83,9	4,7	4,4	3,4	79,3
Sustainability:											
FSS	549	10	9.413.652	11	103	20,7	78,8	3,8	0,0	0,0	80,8
Non-FSS	341	9	4.149.673	9	82	27,1	50,1	2,0	0,0	0,0	70,6
Target Market:											
Low end	335	9	3.942.721	11	100	30,4	55,7	2,1	0,0	0,0	76,9
Broad	454	10	7.955.300	10	83	20,3	79,6	3,6	0,1	0,1	79,5
High end	57	10	19.415.155	11	180	19,3	94,8	4,1	46,6	27,6	75,7
Small Business	44	11	34.759.718	11	188	17,2	92,3	4,3	57,7	40,3	66,9
COMPOUND PEER GROUPS											
Africa Small FSS	21	10	1.608.174	5	43	18,8	78,3	4,3	70,3	25,3	49,1
Africa Small Non FSS	45	7	1.427.732	7	44	46,1	25,9	1,1	0,0	0,0	64,5
Africa Medium FSS	24	11	6.231.614	11	88	23,6	76,3	3,3	29,3	19,9	62,5
Africa Medium Non FSS	24	9	5.265.835	15	127	31,0	42,2	2,2	15,5	10,3	67,7
Africa Large FSS	24	12	44.407.357	32	393	22,3	98,9	3,5	78,9	52,2	60,6
Africa Large Non FSS	21	16	30.284.345	31	255	15,7	74,0	3,9	46,4	26,7	65,8
Asia Small FSS	47	12	1.083.221	2	26	20,6	57,7	3,5	6,1	4,7	81,0
Asia Small Non FSS	41	9	1.423.427	4	44	23,8	72,9	2,4	6,0	1,3	63,6
Asia Medium FSS	38	11	6.272.660	18	132	10,6	98,8	8,5	3,7	2,7	74,1
Asia Medium Non FSS	36	12	4.897.820	17	139	11,2	82,7	5,4	1,0	0,7	68,9
Asia Large FSS	53	12	29.058.976	52	480	15,7	82,8	5,4	0,8	0,7	80,1
Asia Large Non FSS	29	15	23.128.593	115	1.168	12,1	54,2	7,3	0,1	0,1	75,4
ECA Small FSS	27	4	1.399.764	3	15	19,7	82,8	3,6	0,0	0,0	87,7
ECA Small Non FSS	13	3	1.067.016	2	14	58,9	38,9	0,4	0,0	0,0	83,0
ECA Medium FSS	28	8	5.167.421	6	36	34,7	55,4	1,9	0,0	0,0	90,8
ECA Medium Non FSS	20	8	3.550.162	7	30	39,5	34,4	1,0	0,0	0,0	85,0
ECA Large FSS	55	9	56.969.966	27	269	18,2	81,6	4,5	0,0	0,0	85,1
ECA Large Non FSS	15	8	32.990.569	18	201	28,3	62,6	2,5	0,0	0,0	78,8
LAC Small FSS	65	11	2.141.885	4	28	38,6	59,2	1,6	0,0	0,0	80,9
LAC Small Non FSS	40	12	1.461.557	3	27	46,0	46,8	1,1	0,0	0,0	73,0
LAC Medium FSS	58	10	9.711.074	9	84	30,9	68,2	2,2	0,0	0,0	84,5
LAC Medium Non FSS	22	12	7.206.987	12	116	30,5	62,5	1,9	0,0	0,0	80,3
LAC Large FSS	85	15	59.069.316	26	346	16,4	90,8	5,1	52,6	41,3	81,2
LAC Large Non FSS	13	13	77.276.753	45	333	14,3	62,3	6,0	22,4	20,6	79,1
MENA Small FSS	3	4	1.968.887	6	37	22,1	13,0	3,5	0,0	0,0	59,3
MENA Small Non-FSS	9	7	1.139.438	6	30	57,5	18,0	0,5	0,0	0,0	77,9
MENA Medium FSS	8	9	5.465.736	11	98	46,8	37,3	1,1	0,0	0,0	74,8
MENA Medium Non-FSS	6	9	7.403.960	13	103	71,6	32,0	0,5	0,0	0,0	81,4
MENA Large FSS	13	9	24.644.943	42	403	34,6	71,8	1,9	0,0	0,0	86,7
MENA Large Non-FSS	7	16	23.322.343	13	250	78,0	42,7	0,3	0,0	0,0	58,1

For definitions of Peer Groups, refer to the Peer Group Classification section of this file
For details on indicator definitions, refer to the Indicator Definitions section of this file
"n/a" denotes results for Peer Groups with less than three observations

Median

OUTREACH INDICATORS

PEER GROUP	Number of Active Borrowers	Percent of Women Borrowers	Number of Loans Outstanding	Gross Loan Portfolio	Average Loan Balance per Borrower	Average Loan Balance per Borrower/ GNI per Capita	Average Outstanding Balance	Average Outstanding Balance / GNI per Capita	Number of Voluntary Depositors	Number of Voluntary Deposit Accounts
Units	nb	%	nb	US$	US$	%	US$	%	nb	nb
Year:	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
All MFIs	11.041	65,3	11.108	4.800.765	520	37,5	505	35,9	0	0
SIMPLE PEER GROUPS										
Age										
New	6.164	64,7	6.276	1.946.984	353	31,8	353	31,8	0	0
Young	10.236	67,8	10.236	3.845.397	461	40,5	437	38,5	0	0
Mature	13.214	65,2	13.534	6.979.679	582	37,3	574	35,2	0	0
Charter Type:										
Bank	49.864	50,6	53.116	117.432.641	1.699	112,6	1.467	106,3	56810	59446
Credit Union	3.220	51,4	3.238	3.420.237	1.441	64,1	1.307	56,9	5856	6065
NBFI	13.286	57,8	13.806	7.320.138	580	48,9	570	46,2	0	0
NGO	11.790	82,5	11.858	3.295.609	242	17,4	236	17,5	0	0
Rural Bank	4.289	60,1	4.470	2.372.723	574	53,3	574	50,2	11294	11840
Financial Intermediation										
Non FI	11.025	72,8	11.092	4.236.656	385	22,6	374	22,5	0	0
Low FI	17.659	78,9	17.948	3.985.324	181	42,2	177	40,4	7669	7019
High FI	8.933	51,5	9.320	7.225.209	1.159	62,9	1.084	55,5	18813	20691
Methodology:										
Individual	5.848	49,5	5.942	7.225.209	1.444	62,5	1.336	55,6	996	1284
Individual/ Solidarity	11.111	67,4	11.131	4.964.658	423	38,5	415	37,5	0	0
Solidarity	15.524	99,0	15.524	2.584.092	132	16,1	130	15,5	0	0
Village Banking	17.694	93,9	17.694	3.861.404	186	15,8	183	15,8	0	0
Outreach										
Small (Outreach)	2.868	60,1	2.908	1.658.131	709	42,8	705	41,3	0	0
Medium (Outreach)	15.847	70,3	16.099	6.258.437	398	34,5	376	34,0	0	0
Large (Outreach)	71.928	75,3	76.812	30.126.775	279	24,4	274	24,0	171	0
Profit Status										
Profit	15.524	55,8	15.947	8.780.943	601	53,3	586	49,6	3391	3092
Not for Profit	9.287	70,2	9.400	3.751.687	439	31,0	429	28,6	0	0
Region:										
Africa	9.800	60,0	10.059	2.648.924	317	69,1	313	67,9	4720	4720
Asia	18.117	97,7	18.206	3.592.235	165	19,6	162	18,6	568	209
ECA	4.465	45,8	4.533	6.209.887	2.215	73,9	2.205	72,3	0	0
LAC	11.682	63,1	11.730	6.638.122	743	28,9	717	26,9	0	0
MENA	12.590	69,6	12.590	6.271.237	341	15,1	326	15,1	0	0
Scale										
Small (Scale)	2.766	75,9	2.799	1.043.069	305	22,5	300	22,5	0	0
Medium (Scale)	10.776	66,3	11.056	4.696.767	542	33,9	534	33,5	0	0
Large (Scale)	44.459	55,9	49.483	29.451.711	997	59,6	943	54,6	1842	2124
Sustainability:										
FSS	12.397	64,0	12.412	6.880.115	640	39,5	636	38,5	0	0
Non-FSS	8.987	66,6	9.012	2.648.924	323	33,8	313	32,6	0	0
Target Market:										
Low end	14.552	90,0	14.708	2.785.009	150	12,6	148	12,3	0	0
Broad	8.964	55,1	8.999	6.206.823	835	55,2	793	52,8	0	0
High end	8.537	42,2	9.320	11.704.917	1.717	185,6	1.712	184,4	6448	6850
Small Business	7.430	41,1	7.974	21.730.290	2.728	417,7	2.506	375,1	10244	10244
COMPOUND PEER GROUPS										
Africa Small FSS	2.871	59,8	2.871	1.004.861	308	44,8	308	44,8	1395	1395
Africa Small Non FSS	4.367	77,9	4.367	917.057	137	36,0	133	36,0	0	0
Africa Medium FSS	8.040	59,0	8.040	3.266.092	410	97,2	410	97,2	11062	11062
Africa Medium Non FSS	20.871	63,0	20.871	3.497.062	164	47,9	164	47,9	6313	6313
Africa Large FSS	44.887	59,7	44.887	23.060.822	897	186,3	897	166,8	69887	69887
Africa Large Non FSS	29.732	44,1	29.732	21.908.760	617	150,2	505	130,6	35268	35268
Asia Small FSS	3.108	97,9	3.654	862.052	185	16,1	185	13,7	800	767
Asia Small Non FSS	2.714	85,1	2.714	748.989	182	22,5	182	22,5	85	47
Asia Medium FSS	24.350	100,0	24.350	4.313.535	153	20,1	152	20,0	2641	1586
Asia Medium Non FSS	20.253	97,7	20.926	3.328.542	194	23,8	194	23,8	5611	0
Asia Large FSS	117.721	98,0	122.654	20.968.206	164	18,7	153	18,3	241	228
Asia Large Non FSS	147.207	95,9	147.207	19.234.064	153	18,4	151	18,0	7949	7
ECA Small FSS	714	54,6	714	1.309.949	1.138	68,3	1.084	62,1	0	0
ECA Small Non FSS	354	58,6	354	708.397	1.482	57,0	1.296	55,5	0	0
ECA Medium FSS	3.100	42,1	3.100	4.693.381	1.453	44,2	1.453	44,2	0	0
ECA Medium Non FSS	1.737	50,2	1.881	2.971.794	2.637	67,6	2.499	62,9	0	0
ECA Large FSS	27.153	42,6	28.005	53.544.082	2.642	104,4	2.642	99,1	0	0
ECA Large Non FSS	13.459	39,0	13.459	26.298.065	2.389	85,1	2.389	85,1	0	0
LAC Small FSS	3.271	78,6	3.271	1.623.058	331	12,9	331	12,9	0	0
LAC Small Non FSS	2.549	72,7	2.549	1.163.908	473	13,6	472	13,6	0	0
LAC Medium FSS	11.387	63,5	11.471	7.828.401	757	27,9	714	26,9	0	0
LAC Medium Non FSS	9.214	64,6	9.214	6.029.222	643	21,1	643	21,1	0	0
LAC Large FSS	42.917	54,0	49.483	46.112.220	1.491	59,8	1.343	53,3	21278	23370
LAC Large Non FSS	40.243	54,8	40.243	52.030.015	1.713	40,6	1.131	40,6	32420	32420
MENA Small FSS	5.813	100,0	5.813	1.167.827	130	10,6	130	10,6	0	0
MENA Small Non-FSS	2.044	89,4	2.044	546.676	332	20,9	331	20,8	0	0
MENA Medium FSS	12.190	62,9	12.190	3.447.871	226	12,6	226	12,6	0	0
MENA Medium Non-FSS	12.394	63,6	12.394	5.241.281	300	15,2	300	15,2	0	0
MENA Large FSS	74.052	65,9	74.052	18.761.792	448	19,2	420	19,1	0	0
MENA Large Non-FSS	16.262	56,3	16.262	10.576.959	725	27,2	725	27,2	0	0

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"n/a" denotes results for Peer Groups with less than three observations

Median

PEER GROUP		OUTREACH INDICATORS			MACROECONOMIC INDICATORS					OVERALL FINANCIAL PERFORMANCE			
		Voluntary Deposits	Average Deposit Balance per Depositor	Average Deposit Account Balance	GNI per Capita	GDP Growth Rate	Deposit Rate	Inflation Rate	Financial Depth	Return on Assets	Return on Equity	Operational Self-Sufficiency	Financial Self-Sufficiency
	Units	US$	US$	US$	US$	%	%	%	%	%	%	%	%
	Year:	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
All MFIs		0	287	287	1.420	6,4	5,1	6,4	37,9	0,6	3,2	113,6	105,1
SIMPLE PEER GROUPS													
Age													
New		0	250	250	1.013	6,7	6,0	8,0	33,8	(0,7)	(0,9)	104	98
Young		0	316	316	1.474	7,1	5,0	6,4	37,5	0,6	2,5	116	106
Mature		0	286	284	1.589	6,1	5,1	6,4	38,3	0,9	4,5	115	106
Charter Type:													
Bank		50770976	819	819	1.671	7,3	6,3	7,0	33,8	0,8	5,8	115	108
Credit Union		2084016	472	459	3.063	5,0	5,0	5,9	35,1	0,4	2,8	109	102
NBFI		0	213	218	1.200	7,8	5,2	6,4	30,7	0,7	5,1	116	107
NGO		0	26	25	1.589	6,3	5,4	6,4	38,7	0,8	2,4	112	104
Rural Bank		2129026	212	198	1.420	6,3	8,0	6,4	41,3	0,5	5,9	122	108
Financial Intermediation													
Non FI		0	n/a	n/a	1.671	6,8	5,7	6,4	38,2	0,7	2,6	113	105
Low FI		295682	54	57	581	6,4	5,1	6,9	48,8	(0,2)	0,3	114	101
High FI		6157598	417	390	1.420	6,3	5,0	6,4	37,3	0,7	5,5	114	107
Methodology:													
Individual		1168103	791	749	2.920	6,7	5,1	5,4	37,9	0,9	5,8	115	108
Individual/ Solidarity		0	149	148	1.200	6,3	5,3	6,4	37,8	0,5	2,8	114	104
Solidarity		0	15	15	820	7,1	6,0	6,4	55,8	(0,7)	(0,1)	105	98
Village Banking		0	101	101	1.013	6,5	6,0	6,4	38,5	0,8	2,2	110	105
Outreach													
Small (Outreach)		0	330	329	1.671	6,3	5,1	6,4	37,8	0,4	2,1	113	103
Medium (Outreach)		0	166	172	1.200	6,4	4,9	6,4	37,9	0,9	2,8	112	105
Large (Outreach)		32530	332	316	1.100	7,0	6,0	6,4	48,6	1,5	9,5	117	110
Profit Status													
Profit		618749	296	332	1.222	6,4	5,4	6,4	37,5	0,7	5,1	115	107
Not for Profit		0	278	284	1.666	6,3	5,1	6,4	37,9	0,6	2,5	112	104
Region:													
Africa		471006	131	127	540	6,3	6,0	8,2	29,4	(1,1)	(3,2)	106	95
Asia		45560	130	125	1.013	7,3	6,0	6,4	62,0	0,2	2,3	113	103
ECA		0	2.599	1.939	3.621	7,8	5,3	9,0	37,9	0,8	4,3	120	108
LAC		0	722	638	2.920	4,8	4,8	4,0	30,7	1,7	7,2	114	109
MENA		0	488	488	1.589	6,4	5,4	5,4	97,3	0,3	0,9	125	102
Scale													
Small (Scale)		0	197	198	1.420	6,4	5,1	6,4	37,3	0,0	0,6	109	101
Medium (Scale)		0	145	139	1.420	6,4	5,1	6,4	38,3	0,6	2,7	114	104
Large (Scale)		852915	615	589	1.447	6,7	5,1	6,1	38,2	1,5	9,1	119	111
Sustainability:													
FSS		0	459	443	1.671	6,5	5,1	6,4	37,9	2,6	11,9	125	115
Non-FSS		0	161	166	1.100	6,2	5,6	6,4	38,1	(4,9)	(13,1)	98	80
Target Market:													
Low end		0	40	45	1.666	6,7	5,6	6,4	48,0	0,3	1,3	109	102
Broad		3272	417	397	1.647	6,4	5,1	6,4	37,9	0,8	5,1	115	106
High end		1730409	443	404	1.000	6,3	5,4	8,0	37,4	1,7	8,1	118	110
Small Business		9565154	618	507	581	6,2	5,1	8,6	31,4	1,0	3,8	118	111
COMPOUND PEER GROUPS													
Africa Small FSS		731697	149	149	581	6,4	10,2	10,3	28,8	2,1	13,6	121	111
Africa Small Non FSS		0	65	65	391	6,4	6,0	8,9	31,4	(11,9)	(21,4)	78	68
Africa Medium FSS		993025	104	104	464	6,4	9,3	10,5	29,3	2,5	11,8	130	115
Africa Medium Non FSS		474982	125	109	374	6,2	4,4	7,0	33,6	(7,0)	(19,3)	98	77
Africa Large FSS		22214434	215	215	581	6,1	7,9	6,6	33,6	2,8	14,2	125	115
Africa Large Non FSS		8456949	170	170	520	5,4	3,6	1,4	29,1	(3,0)	(13,5)	100	86
Asia Small FSS		34711	180	135	1.420	7,3	6,0	6,4	62,0	2,4	12,7	126	116
Asia Small Non FSS		35443	217	198	1.420	6,3	7,6	6,4	41,3	(8,4)	(22,3)	79	66
Asia Medium FSS		112914	81	81	1.013	7,3	6,0	6,4	62,0	2,1	20,1	123	112
Asia Medium Non FSS		25269	94	119	830	6,7	6,0	6,4	59,2	(3,6)	(13,2)	102	87
Asia Large FSS		149000	296	222	1.013	9,2	6,0	6,4	62,0	1,9	10,6	129	115
Asia Large Non FSS		365419	43	50	792	6,7	7,6	8,3	59,2	(4,0)	(34,6)	101	82
ECA Small FSS		0	3.721	4.288	2.730	8,1	5,4	9,0	37,9	2,2	14,4	127	112
ECA Small Non FSS		0	7.324	4.418	3.990	8,1	5,1	9,0	37,9	(6,1)	(17,5)	89	84
ECA Medium FSS		0	4.035	1.946	3.621	8,1	5,1	9,0	37,8	2,8	11,4	134	116
ECA Medium Non FSS		0	15.152	8.126	4.885	7,5	5,1	9,0	37,9	(3,7)	(7,0)	105	85
ECA Large FSS		0	1.306	1.265	2.960	7,8	5,4	6,4	37,9	2,6	11,5	127	119
ECA Large Non FSS		0	1.893	1.893	2.960	6,7	5,9	9,0	37,7	(3,4)	(7,9)	101	90
LAC Small FSS		0	309	255	3.063	4,8	4,8	4,0	28,3	3,9	8,7	126	113
LAC Small Non FSS		0	329	329	3.063	4,7	4,8	4,3	30,7	(7,1)	(20,8)	93	80
LAC Medium FSS		0	462	360	2.920	4,7	4,8	4,5	37,1	3,2	9,4	122	115
LAC Medium Non FSS		0	352	313	3.063	4,7	4,8	4,5	37,3	(2,2)	(5,0)	101	94
LAC Large FSS		22762507	981	824	2.920	4,8	3,5	4,6	28,3	2,9	17,8	120	117
LAC Large Non FSS		16978440	1.282	1.282	3.871	4,8	5,6	4,4	37,1	(2,5)	(10,9)	98	84
MENA Small FSS		0	n/a	n/a	1.589	7,1	6,1	9,3	97,3	2,4	2,8	151	109
MENA Small Non-FSS		0	321	321	1.230	3,1	8,0	9,3	34,5	(9,6)	(6,4)	101	64
MENA Medium FSS		0	n/a	n/a	1.745	7,1	6,1	7,4	103,8	3,9	4,8	139	116
MENA Medium Non-FSS		0	n/a	n/a	1.589	4,7	3,7	2,6	97,0	(2,7)	(4,3)	96	79
MENA Large FSS		0	n/a	n/a	1.900	6,4	3,7	3,1	106,5	5,4	11,9	141	125
MENA Large Non-FSS		0	n/a	n/a	1.589	7,1	6,1	9,3	97,3	(2,4)	(4,0)	125	83

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Median

PEER GROUP	REVENUES				EXPENSES						
	Financial Revenue/ Assets	Profit Margin	Yield on Gross Portfolio (nominal)	Yield on Gross Portfolio (real)	Total Expense/ Assets	Financial Expense/ Assets	Provision for Loan Impairment/ Assets	Operating Expense / Assets	Personnel Expense/ Assets	Administrative Expense/ Assets	Adjustment Expense/ Assets
Units	%	%	%	%	%	%	%	%	%	%	%
Year:	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
All MFIs	24,2	4,9	29,9	22,0	23,9	6,6	1,4	14,0	7,5	6,4	1,5
SIMPLE PEER GROUPS											
Age											
New	26,4	(1,6)	37,6	26,7	32,6	7,0	1,5	22,2	10,6	10,0	1,5
Young	24,4	5,5	31,0	21,5	24,5	6,7	1,2	15,7	8,2	6,9	1,5
Mature	23,6	5,7	28,7	21,3	22,1	6,5	1,5	12,5	6,7	5,5	1,5
Charter Type:											
Bank	20,4	7,4	26,8	16,6	19,4	6,7	1,2	10,5	5,1	5,5	0,9
Credit Union	19,2	2,2	21,8	16,5	19,5	5,9	1,4	11,0	4,7	5,9	0,8
NBFI	25,6	6,6	31,0	23,4	25,5	7,5	1,3	15,5	8,6	6,7	1,5
NGO	26,5	3,6	32,4	25,2	26,9	6,3	1,6	17,7	10,2	7,4	1,9
Rural Bank	21,6	7,2	31,0	24,6	21,0	6,0	1,8	10,6	5,1	4,7	2,1
Financial Intermediation											
Non FI	26,9	4,8	32,5	24,8	26,9	7,0	1,4	17,4	9,6	7,2	1,8
Low FI	19,8	1,1	27,0	16,0	22,9	6,8	1,3	11,8	7,6	5,5	2,2
High FI	20,7	6,7	26,9	20,3	21,0	5,9	1,5	11,6	5,3	5,8	1,0
Methodology:											
Individual	23,0	7,2	27,6	20,4	21,5	6,9	1,5	11,2	5,7	5,6	1,1
Individual/ Solidarity	25,0	3,8	31,4	22,7	24,5	6,4	1,4	15,6	8,2	6,8	1,9
Solidarity	22,5	(2,3)	28,3	20,5	26,6	7,1	1,3	16,6	10,0	7,4	1,5
Village Banking	26,6	4,6	32,9	27,4	27,4	6,9	1,4	18,9	10,2	7,6	1,2
Outreach											
Small (Outreach)	24,8	2,6	31,8	23,4	25,6	6,7	1,4	15,2	7,8	7,0	1,9
Medium (Outreach)	25,7	4,7	31,1	23,7	25,1	6,1	1,6	16,3	8,4	7,2	1,4
Large (Outreach)	22,5	9,1	26,8	18,1	21,5	7,2	1,3	11,6	6,4	5,1	1,0
Profit Status											
Profit	23,9	6,9	31,2	22,5	23,1	7,3	1,3	13,3	6,7	6,4	1,3
Not for Profit	24,2	3,6	29,4	21,9	24,4	6,4	1,5	14,7	7,9	6,4	1,6
Region:											
Africa	21,1	(5,0)	33,4	23,4	24,7	5,0	2,0	17,4	8,1	9,2	2,2
Asia	20,5	2,6	26,8	18,1	22,2	6,9	1,3	11,6	6,7	4,7	1,8
ECA	25,9	7,2	29,5	19,7	24,7	9,2	1,1	12,9	6,9	5,6	1,8
LAC	28,3	8,1	31,7	26,2	25,9	6,4	1,6	15,9	8,5	7,2	0,9
MENA	21,8	2,1	30,8	22,5	21,3	5,5	0,6	13,1	8,5	4,6	3,3
Scale											
Small (Scale)	26,1	0,9	35,4	27,1	29,2	6,6	1,6	19,5	10,0	8,1	2,2
Medium (Scale)	24,7	3,8	31,4	21,9	24,8	6,7	1,5	15,9	8,5	6,9	1,5
Large (Scale)	22,2	9,5	26,2	18,3	20,4	6,8	1,3	11,2	5,8	5,1	1,0
Sustainability:											
FSS	25,6	13,0	30,4	23,2	21,4	6,7	1,1	12,4	6,5	5,5	1,0
Non-FSS	21,1	(24,7)	29,1	20,2	28,7	6,6	2,5	17,6	9,5	8,1	3,3
Target Market:											
Low end	27,6	2,1	34,8	28,1	28,9	6,9	1,5	20,1	11,0	8,1	1,5
Broad	24,0	5,7	28,9	21,3	22,2	6,6	1,5	12,7	6,6	6,0	1,6
High end	18,5	9,3	22,6	16,2	18,8	6,2	1,2	10,5	4,8	5,2	1,4
Small Business	19,2	9,8	23,2	16,5	18,7	4,9	1,4	10,7	4,7	5,9	1,1
COMPOUND PEER GROUPS											
Africa Small FSS	23,0	9,8	40,4	27,3	20,9	3,1	1,6	14,8	5,1	7,9	1,1
Africa Small Non FSS	21,6	(47,7)	37,5	25,7	37,5	6,2	2,3	26,7	11,7	13,2	3,6
Africa Medium FSS	24,2	12,7	36,6	27,2	20,6	3,7	1,1	15,0	6,5	8,6	1,6
Africa Medium Non FSS	20,4	(30,6)	31,9	18,6	26,0	5,1	2,9	17,9	9,3	8,9	3,8
Africa Large FSS	22,3	13,0	32,2	22,0	19,1	3,9	1,5	13,5	5,3	8,1	1,2
Africa Large Non FSS	18,3	(16,3)	23,1	18,0	21,7	3,5	1,7	15,4	6,5	8,5	3,0
Asia Small FSS	18,9	13,8	23,3	15,5	16,9	6,5	0,8	8,6	6,1	3,5	1,3
Asia Small Non FSS	23,7	(51,9)	33,2	23,6	31,7	6,9	3,3	22,1	11,4	9,8	4,8
Asia Medium FSS	22,5	10,5	27,1	20,1	18,8	6,9	1,2	8,8	5,0	3,7	0,4
Asia Medium Non FSS	18,3	(15,4)	26,8	18,6	25,3	6,4	2,6	14,5	9,4	6,5	3,0
Asia Large FSS	23,4	13,3	28,1	18,5	20,6	7,5	0,7	11,4	6,1	4,8	1,1
Asia Large Non FSS	17,4	(22,1)	21,0	12,0	22,9	7,9	2,5	9,8	5,9	3,9	3,8
ECA Small FSS	36,7	11,0	38,0	26,2	33,2	13,3	1,1	14,7	7,2	6,7	2,1
ECA Small Non FSS	26,1	(18,9)	35,6	24,4	33,2	9,3	4,9	20,6	10,0	8,2	4,2
ECA Medium FSS	34,4	14,1	39,8	22,6	25,5	10,8	1,1	13,4	8,0	6,2	1,5
ECA Medium Non FSS	24,1	(17,4)	28,6	19,2	27,1	9,0	1,4	17,7	9,8	7,3	3,8
ECA Large FSS	22,1	16,1	25,3	16,9	17,2	6,9	0,8	9,1	4,7	4,1	0,8
ECA Large Non FSS	24,5	(11,0)	28,4	20,0	26,9	8,9	1,2	13,4	6,0	6,7	2,0
LAC Small FSS	34,3	11,7	44,5	35,9	28,3	6,0	1,0	20,7	12,1	7,6	1,3
LAC Small Non FSS	26,3	(25,8)	39,9	29,6	41,8	5,6	3,9	27,1	15,4	11,9	2,8
LAC Medium FSS	31,9	13,1	34,8	27,3	27,7	6,8	1,6	17,3	9,7	7,9	1,0
LAC Medium Non FSS	33,3	(6,1)	38,2	27,8	37,9	6,0	3,1	25,8	12,6	11,7	1,7
LAC Large FSS	24,2	14,7	27,6	21,2	20,8	6,4	1,6	11,2	5,7	5,0	0,3
LAC Large Non FSS	22,4	(18,8)	25,4	18,4	23,1	8,2	3,3	10,7	5,1	6,3	1,5
MENA Small FSS	26,0	8,6	39,3	26,6	25,6	8,5	0,0	15,9	9,5	6,3	1,8
MENA Small Non-FSS	15,5	(57,5)	25,2	13,8	36,0	5,8	0,5	25,4	16,3	7,1	6,8
MENA Medium FSS	23,1	13,8	33,8	26,2	19,8	5,6	0,3	15,7	10,3	4,7	3,6
MENA Medium Non-FSS	20,6	(27,3)	31,7	20,5	32,1	3,3	3,5	16,5	11,1	5,8	3,8
MENA Large FSS	26,2	20,0	29,8	23,1	16,2	5,1	0,7	10,2	7,0	3,8	1,0
MENA Large Non-FSS	16,8	(20,0)	28,5	17,0	21,2	10,0	0,5	11,3	8,6	3,0	4,8

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Median	EFFICIENCY					PRODUCTIVITY						
PEER GROUP	Operating Expense/ Loan Portfolio	Personnel Expense/ Loan Portfolio	Average Salary/ GNI per Capita	Cost per Borrower	Cost per Loan	Borrowers per Staff Member	Loans per Staff Member	Borrowers per Loan Officer	Loans per Loan Officer	Voluntary Depositors per Staff Member	Deposit Accounts per Staff Member	Personnel Allocation Ratio
Units	%	%	x	US$	US$	nb	nb	nb	nb	nb	nb	%
Year:	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
All MFIs	19,2	10,1	3,7	117	114	112	117	209	217	0	0	55,0
SIMPLE PEER GROUPS												
Age												
New	34,8	17,0	3,4	119	120	82	83	160	160	0	0	56,8
Young	21,0	10,9	4,0	114	114	112	113	209	215	0	0	54,7
Mature	17,2	9,3	3,6	117	113	120	123	225	238	0	0	54,5
Charter Type:												
Bank	16,4	8,2	5,9	274	255	80	81	195	204	112	114	45,0
Credit Union	14,4	6,2	3,1	180	166	88	94	201	210	190	200	50,0
NBFI	19,5	10,8	4,8	145	134	105	111	205	209	0	0	52,9
NGO	23,5	13,4	3,0	70	68	135	140	233	239	0	0	59,3
Rural Bank	17,2	9,5	2,8	115	104	77	77	163	163	217	225	50,0
Financial Intermediation												
Non FI	22,1	12,6	3,4	101	101	122	124	209	211	0	0	56,6
Low FI	16,7	9,8	5,8	42	41	142	149	267	275	65	62	55,0
High FI	16,1	7,7	3,8	169	163	84	87	186	196	182	194	50,4
Methodology:												
Individual	14,6	7,4	3,6	211	190	79	82	169	176	23	29	51,8
Individual/ Solidarity	21,2	12,0	4,1	101	100	111	115	217	220	0	0	53,3
Solidarity	24,0	14,5	3,0	32	32	160	163	259	260	0	0	63,3
Village Banking	25,4	14,0	2,7	57	57	159	161	277	278	0	0	62,6
Outreach												
Small (Outreach)	20,7	11,1	3,2	149	148	79	79	158	161	0	0	51,7
Medium (Outreach)	21,6	10,8	4,5	104	101	126	128	229	239	0	0	55,0
Large (Outreach)	15,5	8,9	3,6	68	65	166	174	273	288	1	0	60,7
Profit Status												
Profit	19,3	10,0	4,5	149	145	93	95	196	205	29	31	51,7
Not for Profit	19,1	10,2	3,3	101	100	122	125	218	224	0	0	56,8
Region:												
Africa	31,7	14,0	10,3	114	114	125	127	241	244	96	97	56,4
Asia	16,0	9,4	2,4	37	36	129	131	218	236	3	1	61,4
ECA	15,4	8,2	3,8	278	265	66	66	149	151	0	0	43,7
LAC	19,5	10,5	3,7	152	146	120	123	230	242	0	0	55,0
MENA	19,5	13,2	3,3	67	66	119	119	207	207	0	0	55,9
Scale												
Small (Scale)	29,8	14,5	2,7	85	85	99	100	181	182	0	0	55,6
Medium (Scale)	20,6	11,4	3,7	120	116	120	123	219	223	0	0	54,0
Large (Scale)	14,8	7,7	4,4	150	142	120	128	230	248	5	5	55,1
Sustainability:												
FSS	16,3	8,7	3,7	123	119	120	124	229	241	0	0	56,1
Non-FSS	26,1	13,8	3,6	106	106	101	102	182	183	0	0	54,5
Target Market:												
Low end	28,6	15,6	2,5	53	51	156	157	258	263	0	0	59,7
Broad	16,7	8,7	4,3	144	140	98	101	197	207	0	0	52,5
High end	15,1	6,9	6,9	252	235	57	62	125	131	113	124	48,0
Small Business	16,8	7,0	13,2	441	434	40	44	112	120	53	56	43,7
COMPOUND PEER GROUPS												
Africa Small FSS	40,8	13,6	4,8	145	145	77	77	214	214	95	95	56,5
Africa Small Non FSS	48,7	25,2	8,2	81	81	111	111	207	207	0	0	57,5
Africa Medium FSS	31,4	13,0	10,3	125	125	109	109	194	194	167	167	63,2
Africa Medium Non FSS	26,8	14,0	10,4	61	61	181	181	287	307	66	71	61,0
Africa Large FSS	25,5	10,1	15,5	213	205	112	123	288	305	238	238	43,1
Africa Large Non FSS	23,0	8,7	13,0	126	106	137	144	219	227	137	137	55,9
Asia Small FSS	11,7	8,2	1,7	40	40	109	112	186	191	59	51	67,0
Asia Small Non FSS	36,5	20,8	2,3	78	73	72	72	135	135	3	1	54,9
Asia Medium FSS	12,0	7,0	2,5	20	20	175	175	311	325	13	10	64,3
Asia Medium Non FSS	18,7	12,7	2,6	47	41	119	119	229	232	67	0	54,8
Asia Large FSS	13,1	8,2	2,9	27	26	167	167	286	308	1	1	58,9
Asia Large Non FSS	14,8	8,3	3,0	17	16	143	143	227	228	0	0	62,7
ECA Small FSS	18,5	9,2	2,0	156	156	60	60	147	147	0	0	46,5
ECA Small Non FSS	39,6	15,9	3,4	315	313	35	38	71	71	0	0	42,9
ECA Medium FSS	15,0	9,0	3,3	176	176	81	90	186	186	0	0	43,5
ECA Medium Non FSS	21,9	11,5	3,0	521	521	49	51	104	116	0	0	44,1
ECA Large FSS	11,5	6,2	5,1	272	268	80	80	209	209	0	0	43,7
ECA Large Non FSS	18,3	8,6	4,7	369	368	63	63	126	126	0	0	42,9
LAC Small FSS	26,6	16,0	2,5	84	84	135	141	271	271	0	0	55,8
LAC Small Non FSS	39,9	21,3	2,3	149	148	102	102	172	172	0	0	55,8
LAC Medium FSS	21,8	11,3	3,9	145	138	125	127	232	238	0	0	52,8
LAC Medium Non FSS	32,5	14,2	3,2	155	154	103	103	213	213	0	0	51,1
LAC Large FSS	13,9	7,1	4,6	187	172	122	133	229	257	83	97	62,8
LAC Large Non FSS	16,2	8,8	3,8	252	206	179	268	345	383	90	93	51,7
MENA Small FSS	24,5	14,7	2,6	32	32	157	157	265	265	0	0	50,0
MENA Small Non-FSS	31,5	20,2	2,6	49	49	65	65	126	126	0	0	51,7
MENA Medium FSS	20,5	14,3	2,3	52	52	130	130	235	235	0	0	57,2
MENA Medium Non-FSS	24,7	17,1	3,6	82	82	92	92	165	165	0	0	55,6
MENA Large FSS	14,2	9,3	3,9	66	65	184	184	251	263	0	0	71,1
MENA Large Non-FSS	18,5	10,7	3,3	112	112	165	165	211	211	0	0	53,3

For definitions of Peer Groups, refer to the Peer Group Classification section of this file
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"n/a" denotes results for Peer Groups with less than three observations

Median			RISK AND LIQUIDITY			
	Portfolio at Risk > 30 Days	Portfolio at Risk > 90 Days	Write-off Ratio	Loan Loss Rate	Risk Coverage Ratio	Non-earning Liquid Assets as a % of Total Assets
PEER GROUP						
Units	%	%	%	%	%	%
Year:	2007	2007	2007	2007	2007	2007
All MFIs	2,7	1,4	1,1	1,0	86,8	6,5
SIMPLE PEER GROUPS						
Age						
New	2,0	0,7	0,4	0,4	78,6	8,8
Young	1,8	0,8	0,9	0,7	95,2	5,7
Mature	3,0	1,7	1,7	1,5	84,1	6,3
Charter Type:						
Bank	2,4	1,1	0,8	0,5	118,0	5,0
Credit Union	3,6	2,2	1,2	0,9	69,7	6,0
NBFI	2,0	0,9	1,0	0,7	96,1	5,9
NGO	2,8	1,4	1,1	1,0	88,7	7,5
Rural Bank	5,5	2,4	3,9	3,7	46,5	5,3
Financial Intermediation						
Non FI	2,2	1,0	0,9	0,8	96,3	5,8
Low FI	2,0	1,0	0,9	0,6	81,1	8,0
High FI	3,8	2,2	1,9	1,6	67,8	7,0
Methodology:						
Individual	3,1	1,8	1,4	1,1	86,9	5,1
Individual/ Solidarity	2,7	1,4	1,2	1,1	83,1	7,1
Solidarity	1,1	0,4	0,3	0,3	92,7	9,0
Village Banking	2,2	0,8	0,9	0,7	95,6	7,5
Outreach						
Small (Outreach)	3,0	1,5	1,2	1,0	71,6	6,2
Medium (Outreach)	2,8	1,4	1,5	1,3	90,1	7,8
Large (Outreach)	2,0	1,1	0,9	0,8	108,3	5,8
Profit Status						
Profit	2,7	1,3	1,4	1,2	81,5	5,2
Not for Profit	2,7	1,4	1,1	0,9	88,1	7,1
Region:						
Africa	4,8	2,2	2,0	1,8	58,8	13,4
Asia	1,7	0,9	1,0	0,9	79,9	5,8
ECA	1,2	0,5	0,4	0,3	112,7	3,1
LAC	3,2	1,8	1,7	1,6	97,7	6,3
MENA	1,9	0,7	0,5	0,4	76,0	8,4
Scale						
Small (Scale)	2,9	1,3	1,1	0,9	73,3	8,4
Medium (Scale)	2,5	1,4	1,3	1,2	79,8	6,7
Large (Scale)	2,5	1,4	1,1	0,9	98,3	5,2
Sustainability:						
FSS	2,1	1,0	0,9	0,7	98,0	5,3
Non-FSS	4,4	2,2	2,1	1,8	70,0	8,9
Target Market:						
Low end	2,0	1,0	1,1	1,0	86,8	7,7
Broad	2,8	1,5	1,3	1,1	90,1	5,3
High end	2,6	1,3	0,9	0,6	80,7	6,7
Small Business	3,5	2,2	0,9	0,8	66,8	8,5
COMPOUND PEER GROUPS						
Africa Small FSS	5,2	3,1	0,6	0,5	47,3	8,9
Africa Small Non FSS	5,4	2,2	2,1	1,8	63,5	15,9
Africa Medium FSS	3,1	1,7	2,2	2,2	56,5	13,8
Africa Medium Non FSS	5,2	2,3	4,6	3,4	58,9	13,8
Africa Large FSS	3,8	1,5	1,9	1,5	59,2	10,5
Africa Large Non FSS	6,6	5,3	1,8	1,6	59,5	13,4
Asia Small FSS	0,4	0,0	0,8	0,7	51,9	10,7
Asia Small Non FSS	2,8	1,4	3,5	3,5	62,5	7,2
Asia Medium FSS	1,4	0,7	0,5	0,5	90,0	9,4
Asia Medium Non FSS	2,7	1,9	3,5	3,5	69,1	5,1
Asia Large FSS	0,7	0,5	0,8	0,7	113,8	2,6
Asia Large Non FSS	4,7	2,6	1,3	1,2	87,4	7,1
ECA Small FSS	0,6	0,4	0,1	0,0	81,6	2,8
ECA Small Non FSS	3,8	2,1	1,0	0,5	69,2	7,1
ECA Medium FSS	1,5	0,3	0,3	0,2	155,4	2,5
ECA Medium Non FSS	2,3	1,3	0,7	0,6	60,0	6,4
ECA Large FSS	0,9	0,5	0,5	0,3	146,7	2,7
ECA Large Non FSS	2,5	0,9	1,3	0,9	128,5	2,9
LAC Small FSS	2,8	1,0	0,7	0,6	105,1	6,2
LAC Small Non FSS	5,4	2,9	3,0	2,4	65,8	7,7
LAC Medium FSS	2,4	1,5	1,5	1,4	106,0	4,2
LAC Medium Non FSS	4,1	2,8	2,6	2,3	94,9	8,1
LAC Large FSS	3,0	1,8	2,1	1,8	108,3	6,3
LAC Large Non FSS	5,1	4,0	2,4	2,4	78,3	4,7
MENA Small FSS	0,0	0,0	0,0	0,0	n/a	16,6
MENA Small Non-FSS	2,7	1,7	3,4	3,4	70,1	16,6
MENA Medium FSS	1,0	0,4	0,4	0,4	61,1	15,3
MENA Medium Non-FSS	3,4	2,4	2,6	1,6	135,4	5,8
MENA Large FSS	1,3	0,4	0,2	0,2	101,2	4,0
MENA Large Non-FSS	3,3	0,4	1,0	0,8	77,6	0,4

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"n/a" denotes results for Peer Groups with less than three observations

Indicator Definitions

INSTITUTIONAL CHARACTERISTICS	
Number of MFIs	Sample Size of Group
Age	Years Functioning as an MFI
Total Assets	Total Assets, adjusted for Inflation and standardized provisioning for loan impairment and write-offs
Offices	Number, including head office
Personnel	Total number of staff members
FINANCING STRUCTURE	
Capital/ Asset Ratio	Adjusted Total Equity/ Adjusted Total Assets
Commercial Funding Liabilities Ratio	(Voluntary and Time Deposits + Borrowings at Commercial Interest Rates) / Adjusted Average Gross Loan Portfolio
Debt to Equity	Adjusted Total Liabilities/ Adjusted Total Equity
Deposits to Loans	Voluntary Deposits/ Adjusted Gross Loan Portfolio
Deposits to Total Assets	Voluntary Deposits/ Adjusted Total Assets
Portfolio to Assets	Adjusted Gross Loan Portfolio/ Adjusted Total Assets
OUTREACH INDICATORS	
Number of Active Borrowers	Number of borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/ Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/ Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/ GNI per Capita	Adjusted Average Loan Balance per Borrower/ GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio/ Adjusted Number of Loans Outstanding
Average Outstanding Balance / GNI per Capita	Adjusted Average Outstanding Balance/ GNI per Capita
Number of Voluntary Depositors	Number of depositors with voluntary deposit and time deposit accounts
Number of Voluntary Deposit Accounts	Number of voluntary deposit and time deposit accounts
Voluntary Deposits	Total value of voluntary deposit and time deposit accounts
Average Deposit Balance per Depositor	Voluntary Deposits/ Number of Voluntary Depositors
Average Deposit Account Balance	Voluntary Depositors/ Number of Voluntary Deposit Accounts
MACROECONOMIC INDICATORS	
GNI per Capita	Total income generated by a country's residents, irrespective of location / Total number of residents (World
GDP Growth Rate	Annual growth in the total output of goods and services occurring within the territory of a given country
Deposit Rate	Interest rate offered to resident customers for demand, time, or savings deposits (IMF/International Financial Statistics)
Inflation Rate	Annual change in average consumer prices (IMF/International Financial Statistics)
Financial Depth	Money aggregate including currency, deposits and electronic currency (M3) / GDP, measuring the monetization of the economy (IMF/International Financial Statistics)
OVERALL FINANCIAL PERFORMANCE	
Return on Assets	(Adjusted Net Operating Income - Taxes)/ Adjusted Average Total Assets
Return on Equity	(Adjusted Net Operating Income - Taxes)/ Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Impairment Losses on Loans + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/ Adjusted (Financial Expense + Impairment Losses on Loans + Operating Expense)
REVENUES	
Financial Revenue/Assets	Adjusted Financial Revenue/ Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income/ Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio/ Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)
EXPENSES	
Total Expense/ Assets	Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense) / Adjusted Average Total Assets
Financial Expense/Assets	Adjusted Financial Expense/ Adjusted Average Total Assets
Provision for Loan Impairment/ Assets	Adjusted Impairment Losses on Loans/ Adjusted Average Total Assets
Operating Expense / Assets	Adjusted Operating Expense/ Adjusted Average Total Assets
Personnel Expense/ Assets	Adjusted Personnel Expense/ Adjusted Average Total Assets
Administrative Expense/ Assets	Adjusted Administrative Expense/ Adjusted Average Total Assets
Adjustment Expense/ Assets	(Adjusted Net Operating Income - Unadjusted Net Operating Income)/ Adjusted Average Total Assets
EFFICIENCY	
Operating Expense/ Loan Portfolio	Adjusted Operating Expense/ Adjusted Average Gross Loan Portfolio
Personnel Expense/ Loan Portfolio	Adjusted Personnel Expense/ Adjusted Average Gross Loan Portfolio
Average Salary/ GNI per Capita	Adjusted Average Personnel Expense/ GNI per capita
Cost per Borrower	Adjusted Operating Expense/ Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense/ Adjusted Average Number of Loans
PRODUCTIVITY	
Borrowers per Staff Member	Adjusted Number of Active Borrowers/ Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding/Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/ Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding/ Number of Loan Officers
Voluntary Depositors per Staff Member	Number of Voluntary Depositors/ Number of Personnel
Deposit Accounts per Staff Member	Number of Deposit Accounts/ Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/ Number of Personnel
RISK AND LIQUIDITY	
Portfolio at Risk > 30 Days	Outstanding balance, portfolio overdue> 30 Days + renegotiated portfolio/ Adjusted Gross Loan Portfolio
Portfolio at Risk > 90 Days	Outstanding balance, portfolio overdue> 90 Days + renegotiated portfolio/ Adjusted Gross Loan Portfolio
Write-off Ratio	Adjusted Value of loans written-off/ Adjusted Average Gross Loan Portfolio
Loan Loss Rate	(Adjusted Write-offs - Value of Loans Recovered)/ Adjusted Average Gross Loan Portfolio
Risk Coverage Ratio	Adjusted Impairment Loss Allowance/ PAR > 30 Days
Non-earning Liquid Assets as a % of Total Assets	Adjusted Cash and banks/ Adjusted Total Assets
Current Ratio	Short Term Assets/ Short Term Liabilities

Financial Term Definitions

BALANCE SHEET	
Cash and Due from Banks	Cash, petty cash, balances in banks, including non-interest bearing deposits
Reserves from Central Bank	Cash reserves in a central bank
Trade Investments	Treasury bills and other short term investments, including interest-bearing deposits, convertible to cash within 12 months. Usually used in liquidity management.
Net Loan Portfolio	Gross Loan Portfolio minus Loan Loss Reserve
Gross Loan Portfolio	All outstanding principal for all outstanding client loans, including current, delinquent and restructured loans, but not loans that have been written off. It does not include interest receivable. It does not include employee loans.
(Impairment Loss Allowance)	The portion of the gross loan portfolio that has been expensed (provisioned for) in anticipation of losses due to default. This item represents the cumulative value of the loan loss provision expense, less the cumulative value of loans written off.
Interest Receivable	Interest receivable on all asset accounts. Recorded by institutions using accrual accounting.
Accounts Receivable and Other Assets	Accounts receivable, notes receivables and other receivables. This includes all receivables other than client loan accounts, including employee loans.
Other Investments	Long term investments not convertible to cash within 12 months
Net Fixed Assets	The purchase value of property, plant and equipment, less accumulated depreciation. This includes intangibles, such as MIS development or goodwill, less accumulated amortization.
TOTAL ASSETS	Total of all net asset accounts
Demand Deposits	Total of Voluntary and Compulsory Savings
Voluntary Deposits	Demand deposits from the general public and members that are not maintained as a condition for accessing a current or future loan and are held with the institution
Compulsory Deposits	Client savings accounts that are maintained as a condition for a current or future loan and are held with the institution
Time Deposits	Certificates of deposit or other fixed term deposits
Borrowings	Total of Commercial and Concessional Borrowings
Borrowings at concessional interest rates	Principal balance of all borrowings, including overdraft accounts, for which the institution pays a nominal rate of interest that is less than the local commercial interest rate
Borrowings at commercial interest rates	Principal balance of all borrowings, including overdraft accounts, for which the institution pays a nominal rate of interest that is greater than to or equal to the local commercial interest rate
Interest Payable	Interest payable on all liability accounts. Recorded by institutions using accrual accounting.
Accounts Payable and Other Liabilities	Other liabilities including tax and salary liabilities, social withholdings, deferred income, other accounts payable, including liabilities that do not fund the portfolio, such as mortgages on real estate.
TOTAL LIABILITIES	Total of all liability accounts
Paid-in Capital	Capital paid by shareholders or members
Donated Equity	Accumulated donations
Prior Years	Accumulated donations from prior periods
Current Year	Donations from the current year
Retained Earnings	Accumulated net income after taxes and before donations
Prior Years	Accumulated net income after taxes and before donations from prior periods
Current Year	Net income after taxes and before donations from the current year
Adjustments to Equity	Value of all adjustments, including inflation adjustment
Inflation Adjustment	Value of inflation adjustment expense
Subsidized Costs of Funds Adjustment	Value of subsidized cost of funds adjustment expense
In-Kind Subsidy Adjustment	Value of in-kind subsidy adjustment
Reserves	Reserves such as those imposed by law or statute.
Other Equity Accounts	Other equity accounts not included elsewhere
TOTAL EQUITY	Total of all equity accounts
TOTAL LIABILITIES AND EQUITY	Total of Total Liabilities and Total Equity

Financial Term Definitions

	INCOME STATEMENT
Financial Revenue	Total of revenue from loan portfolio and other financial assets, as well as other financial revenue from financial services
Financial Revenue from Loan Portfolio	Total interest, fees and commission on loan portfolio
Interest on Loan Portfolio	Interest earned on loan portfolio
Fees and Commissions on Loan Portfolio	Penalties, commissions and other fees charged on loan portfolio
Financial Revenue from Investments	Net gains on other financial assets
Other Operating Revenue	Other revenue from provision of financial services, including revenue from insurance or transfer services or non-financial revenue from the provision of financial services, such as the sale of passbooks or SmartCards. This account also include net exchange gains.
Financial Expense	Total of financial expense on liabilities, net inflation adjustment, cost-of-funds adjustment and other expenses from financial services
Financial Expense on Funding Liabilities	Total of interest and fees paid on deposits and borrowings
Interest and Fee Expense on Deposits	Interest and fees paid on demand or term deposits
Interest and Fee Expense on Borrowings	Interest and fees paid on borrowings
Net Adjustment for Inflation	Reserved for institutions that use inflation based accounting. Net amount of inflation adjustment.
Inflation Adjustment to Equity	Cost of maintaining the value of the institution's equity
Inflation Adjustment to Fixed Assets	Gain on the value of fixed assets due to inflation
Adjustment for Subsidized Cost of Funds	Adjustment expense for difference between market rate and concessional rate on borrowings
Other Financial Expense	Other expenses from provision of financial services, including non-financial expenses on financial products, as well as net exchange depreciation
NET FINANCIAL INCOME	Financial Revenue minus Financial Expense
Impairment Losses on Loans	Sum of loan loss provision expense and recovery on loans written off
Provision for Loan Impairment	Loan Loss Provision Expense for the period
Value of Loans Recovered	Total recovery on loans written off
Operating Expense	Total of Personnel Expense and Administrative Expense
Personnel Expense	Salaries, withholdings, fringe benefits and personnel taxes paid on all those who work for the institution
Administrative Expense	Total of Rent and Utilities, Transportation, Office Supplies, Depreciation and Other Administrative Expenses
Rent and Utilities	Rent and utility charges
Transportation	Transportation of staff to attend to clients and to manage operations
Office Supplies	Printed matter, supplies, photocopies, books, etc.
Depreciation and Amortization	Allowance for deterioration, eventual replacement of equipment
Other Administrative Expense	Other non-personnel administrative expenses
NET OPERATING INCOME	Financial Revenue less Financial Expense, Net Loan Loss Provision Expense and Operating Expense
Net Non-Operating Income	Non-operating Revenue less Non-operating Expense
Non-Operating Revenue	Revenue from activity unrelated to the MFI's core activity of providing financial services. This could include consulting income, sale of IT products, or fees for business development services (BDS).
Non-Operating Expense	Expenses from activity unrelated to the MFIs core activity of providing financial services, such as BDS development costs or consulting expenses
NET INCOME (BEFORE TAXES AND DONATIONS)	Net Operating Income less Net Non-operating Income
Taxes	Includes all taxes paid on Net Income or other measure of profits as defined by local tax authorities.
NET INCOME (AFTER TAXES AND BEFORE DONATIONS)	Net Income (before Taxes and Donations) less Taxes
Donations	Donations made to the MFI to subsidize its operations
NET INCOME (AFTER TAXES AND DONATIONS)	Net Income (after Taxes and before Donations) plus Donations.

Abstract – German

Die Idee der Bereitstellung von kleinsten Finanzprodukten und -dienstleistungen wie Krediten, Spareinlagen und Versicherungen für arme und einkommensschwache Menschen findet gerade in den letzten Jahren Anklang und die Spannweite reicht von Kreditgenossenschaften und Volksbanken, und informellen Finanzinstitutionen, die in ihrer Art bereits seit dem 15. Jahrhundert bestehen, bis zu Herausforderungen eines umfassenden Finanzsystems im Bereich der Mikrofinanzierung. Das Internationale Jahr der Mikrofinanzierung 2005 und die Vergabe des Friedensnobelpreises 2006 an die Grameen Bank in Bangladesch und seinen Gründer Ökonomie Professor Muhammad Yunus verdeutlichen die wachsende Relevanz der Mikrofinanz für geeignete und nachhaltige Strategien der Entwicklungshilfe. Mikrofinanzierung als Entwicklungswerkzeug trägt maßgeblich zur Erfüllung der Jahrtausendentwicklungsziele der Vereinten Nationen bei (Millennium Development Goals of the United Nations), die bereits im Jahr 2002 von dem damaligen Generalsekretär Kofi Annan vorgestellt wurden mit dem übergeordneten Ziel das Phänomen der globalen Armut zu bekämpfen. Der wirtschaftsorientierte Ansatz von Social Responsible Investment, insbesondere im Bereich der Mikrofinanzierung, ermöglicht einen vereinfachten Zugang zu Finanzprodukten und -dienstleistungen für die arme und einkommensschwache Bevölkerung und impliziert gleichwohl eine *„Win-Win-Win-Situation"*. Eine Vielzahl von Mikrofinanzinstitutionen bieten heute Finanzintermediation für Millionen von Kunden im Sektor der Mikrofinanzierung, oftmals ausschließlich ermöglicht durch ausländische Geld- und Fördermittel. Die Leistungsfähigkeit von Institutionen der Mikrofinanz, ihre Wirkung und das Erreichen der Zielgruppe von armen und einkommensschwachen Haushalten, so wie die institutionelle Nachhaltigkeit sind das *„Ying und Yang der Mikrofinanz"* als zentrale Zielvorgaben im konzeptionellen Rahmen der Mikrofinanzierung.

Abstract – English

The small idea of the permanent access of poor and income households to common financial services and products such as credit, savings, and insurance, has rapidly advanced and spread from credit and informal savings groups in the 15^{th} century to the challenge of inclusive financial systems and the comprehensive mechanism of Microfinance today. The award of the Nobel Peace Prize 2006 to the Grameen Bank in Bangladesh and its founder economics professor Muhammad Yunus, and the International Year of Microfinance in the previous year, and highlight the augmenting importance of Microfinance in strategies of development aid. Withal, Microfinance as development tool contributes to the fulfilment of the Millennium Development Goals (MDG) set out already in the year 2002 by Kofi Annan, the then Secretary General of the United Nations (UN), with the overall goal to halve poverty by 2015.

The global approach *"From Aid to Trade"* to Social Responsible Investment (SRI) put the economic thought in centre of attention whilst serving the specifications of financial technical intervention of Microfinance. Rethinking banking towards broader access of the unbankable, namely poor and low-income households, to common financial products and services implies the proposition of a *"win-win-win situation".* Numerous Mircofinance Institutions now provide financial intermediation to millions of Microfinance customers facilitated through donations and subsidisation most of foreign sources. The performance of Microfinance Institutions, their institutional sustainability as well as their impact and outreach to the poor thus form the central ideas of the conceptual framework of Microfinance, referred to as the *"Ying and Yang of Microfinance"*. The controversially discussed impact of Microfinance especially in countries with poorly developed economies strongly calls for the persisting commitment of the international community contributing effectively to global solidarity.

The recent shift *"from Microcredit to Microfinance"* is most evident in recent developments in Microfinance elucidating that the microfinancial sector has evolved from a marginal, niche market to a maturing inclusive financial system. Microfinance is an integral instrument in the transition to diverse and competitive financial systems promoting innovation, economic growth and financial development in the segments of society.

Curriculum Vitae

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- Industrial Management | Industrial Relations, Corporate Governance & CSR
- Innovations- und Technologiemanagement | HealthCare

Sprachschwerpunkt:

- Englisch | Französisch | Chinesisch

Diplomarbeit:

- Microfinance – An analytical study of industrial, emerging and developing countries

Okt 02 - Okt 05

Ludwig-Maximilians Universität München
Studium der Sinologie und Betriebswirtschaft

Schulbildung

Sep 99 - Jun 02	Edith-Stein Gymnasium München, Abschluss mit dem Abitur
Jul 98 - Jul 99	Rand Park High School Johannesburg, Südafrika Teilnahme am AFS Austauschprogramm

Praktische Erfahrung

Seit Dez 08	Wiener Tafel e.V., ehrenamtliche Tätigkeit Öffentlichkeitsarbeit & redaktionelle Arbeit, Logistik, Sponsoring & Charity Event Management
Jul 08 - Sep 08	The Economist Group GmbH in Wien, Interim Conference Manager Government Roundtables und Konferenzen
Mär 08 - Jul 08	Universität Wien Lehrstuhl für Innovations- und Technologiemanagement, Studienassistentin und E-learning Koordinatorin
Feb 08 - Mär 08	Capgemini Consulting Österreich AG in Wien, Praktikum Human Resources
Okt 07 – Feb 08	Universität Wien Lehrstuhl für Innovations- und Technologiemanagement, Studienassistentin
Apr 07 – Sep 07	Bosch Automotive Products Co., Ltd in Suzhou, China, Praktikum PA/ATMO3 Project Management
Feb 07 – Mär 07	Generalkonsulat der Bundesrepublik Deutschland in Shanghai, China, Praktikum Abteilung für Kultur und Bildung
Okt 06 – Jan 07	Universität Wien Lehrstuhl für Innovations- und Technologiemanagement, Studienassistentin
Jul 06 – Okt 06	Capgemini Consulting Österreich AG in Wien, Praktikum Manufacturing, Retail & Distribution
Aug 04 – Nov 04	Serviceplan Brandevent in München, Praktikum Event Management & Public Relations
Aug 99 – Aug 01	AFS Komitee München, ehrenamtliche Tätigkeit Public Relations & Campaining
Aug 96 und Aug 97	YMCA Day Camp Painesville, USA, ehrenamtliche Tätigkeit Organisation von Freizeitaktivitäten, Betreuung von Kindern und Jugendlichen

Kenntnisse und Fertigkeiten

Sprachen	Englisch | Sehr gute Kenntnisse
	Französisch | Gute Kenntnisse
	Chinesisch | Grundkenntnisse
	Afrikaans | Grundkenntnisse
	Russisch | Grundkenntnisse
EDV Kenntnisse	MS Office | sehr gute Kenntnisse
	MacroMedia Dreamweaver | gute Kenntnisse
	SAP R/3 | Grundkenntnisse