

Analyzing Microfinance Markets

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Microfinance is small-scale financial services for low-income customers in developing economies. Microfinance markets have expanded rapidly in the last decade, yet surprisingly few microfinance market data are available. In order to understand how microfinance markets develop, quantitative data on the chain of international investments, domestic markets, and customers are needed. This project aims at closing important gaps in the empirical analysis of microfinance markets in two areas of this value chain.

The Country Perspective

The first sub-project examines microfinance markets in a large-scale cross-country analysis. Why have poor people in some countries access to banks or other financial institutions but not in others? Why does microfinance grow in some countries but not in others, despite their similarities in national income, per-capita income, in population size, even in recent economic and political developments? The research uses a specific microfinance market database to investigate country-wide microfinance market factors. In particular, it explores how microfinance market penetration rates, meaning the percentage of the poor population that is served by microfinance providers, have been evolving in different countries and identify what drives penetration rates. The project develops a set of indicators that measure microfinance market penetration in more than 80 countries. It investigates how these indicators are related to macroeconomic, financial sector, and institutional characteristics of countries, and tests how these relationships differ between groups of countries.

This analysis will identify factors that influence the quantitative coverage (market penetration) and quality (such as aggregated credit risk, loan loss) of microfinance markets. It will offer insights on where microfinance investors could invest in new markets. Moreover, it will highlight implications for regulators concerned about concentration, systemic risk, and risks for depositors and borrowers.

The Global Investment Perspective

As the history of microfinance investments is short, transparent reporting is important for potential investors. Nevertheless, to date, comparable performance information on microfinance investments is provided annually at best. For better analysis and benchmarking of fund performance as well as for comparison with other asset classes, more frequent performance reporting is needed.

Microfinance investments aim at financial returns as well as social achievements. Focusing on both types of return when valuing investments is necessary for players along the microfinance value chain to adapt and maintain socially responsible investment strategies.

The second sub-project therefore focuses on the calculation of an index of microfinance investments. Both financial and social factors are taken into account in order to capture the “double-bottom line” of investments and to increase transparency with regards to social responsibility in the investment process. The index is based on financial performance data and social factors regularly collected from fund managers.

Research Team

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Fields of Research

Capital Markets, Finance and Society, Development Finance