

Research Monthly

Microfinance

Gender – what impact on financial and social return?

Private Banking

Socio-economics and characteristics

"Study after study has taught us that there is no tool for development more effective than the empowerment of women. No other policy is as likely to raise economic productivity, or to reduce infant and maternal mortality. No other policy is as sure to improve nutrition and to promote health. No other policy is as powerful in increasing the chances of education for the next generation."

Kofi Annan, 7th Secretary-General of the United Nations, 2005¹

It has become an established assumption of development economics that female poverty alleviation actively contributes to the social and economic development of nations. The United Nations' "Gender Development Index," for example, indicates that countries discriminating on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance and a lower living standard for their people. Attempts to alleviate poverty and address the most important Millennium Development Goals (MDGs) therefore often have a strong focus on women.²

Based on the assumption that credit provided to women will have multiple effects, early microfinance donor programs have been directed almost exclusively toward women. Women are believed to invest their profits in goods and services that improve the well-being of families. An increase in women's income generally improves the welfare of the whole family. In the past few decades, women have demonstrated better loan repayments than men, which has led them to be considered more reliable borrowers. Women generally invest in less risky businesses and fear the cost of business failure more. They also have more incentives for loan repayments, because they want to maintain their access to credit, to village groups, to networks and to other facilities provided by microfinance institutions (MFIs).³ Microfinance services positively influence women's decision-making power and enhance their overall socio-economic status, and therefore lead to women's empowerment.

Highlights

- Empowering women to participate in socio-economic development is an effective development policy.
- Microfinance has traditionally focused on women, but has evolved to reach out to the broader population of poor customers around the world.
- MFIs with more than 75% women-focus continue to enjoy a better portfolio quality, have better profitability despite higher operating costs, and have lower leverage, all while offering high outreach.
- MFIs with a strong women-focus continue to be a prime investment target for investors pursuing a dual-return objective: social and financial.

In the meantime, microfinance has evolved to reach a broad population of customers throughout the world. The MFI universe now encompasses a broad range of "business" models: non-governmental organizations (NGOs), credit unions, cooperatives, non-banking financial institutions and banks. Some of these MFIs are nonprofit institutions and others are for-profit institutions.

We have therefore found it interesting to examine the extent to which gender-focus today differentiates MFIs with regard to important indicators such as outreach, loan portfolio quality, and profitability, using the broad set of sector data that are available to us. The link between female targeting and microfinance performance has been poorly explored in the literature⁴, and we aim to add insight on this topic. This

¹ Kofi Annan, <http://www.un.org/News/Press/docs/2005/sgsm9738.doc.htm>

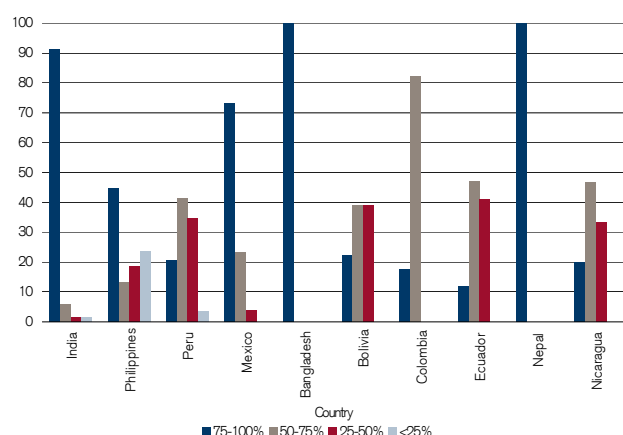
² S. Cheston / L. Kuhn, Empowering Women through Microfinance, 2010, p. 7

³ Hirut. Bekele Haile, Targeting married women in microfinance programmes, 2010, p. 9f

⁴ Roy Mersland, Gender bias in microfinance, 2009, p. 5

Figure 1

Ten largest countries by number of MFIs and quartiles representing % of women



Source: The Mix, Credit Suisse

information also constitutes useful input for microfinance investors who pursue dual returns.

Data and metrics

Our original dataset includes 1047 MFIs reporting to the Mix, and data were collected through the end of 2009. To examine how gender-focus affects key indicators, we reduced the dataset to a sample of 550 MFIs⁵ and grouped it into quartiles, where the first quartile consists of 75% to 100% women (259 MFIs), the second quartile 50% to 75% (144 MFIs), the third quartile 25% to 50% (112 MFIs) and the fourth quartile up to 25% (35 MFIs). We first examined the sample group by countries.

At the country level (represented by 83 countries), we see in Figure 1 that India, Bangladesh and Nepal have a strong bias toward MFIs in the highest quartile of women-focus. In Latin America, only Mexico has a high percentage of women-focused MFIs. Both South Asia and Latin America have mature microfinance markets, but with a different focus on gender-related lending practices, as indicated in Figure 1.

Further indicators we have analyzed in each of these quartiles fall into three categories:

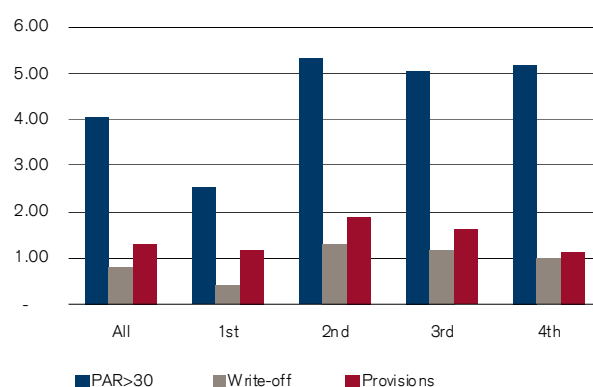
- Loan portfolio quality
- Outreach and operating costs
- Profitability

For each of these indicators, we computed means, medians and modes by quartile. These statistics respectively indicate the average value observed, the value separating the higher half from the lower half of our sample and the most frequently observed value for each of our indicators. In this publication, we focus on the median as the most relevant measure of the three.

⁵ MIX data; all MFIs ending 2009, minus those with no gender-specific information, those not having all key indicators and those which are serving fewer than 5000 active borrowers; this resulted in a sample of 550 MFIs.

Figure 2

Median for PAR>30, write-off and provisions in 2009 by women-focused quartiles



Source: The Mix, Credit Suisse

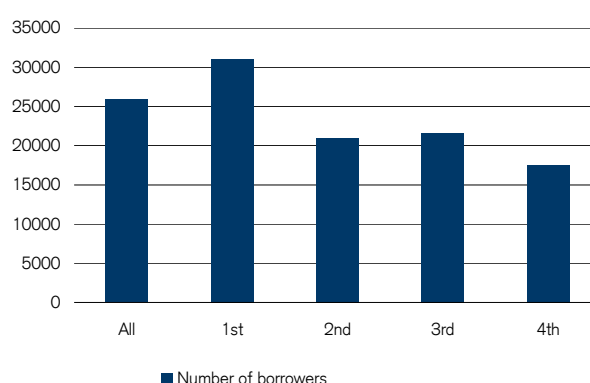
Portfolio loan quality

From a portfolio quality point of view, the high female repayment rate is one of the main arguments for targeting microfinance services toward women. Upon looking at the repayment structure across MFIs, we have examined three indicators: portfolio-at-risk for more than 30 days (PAR>30), write-off ratio, and provisions for loan impairments in terms of percentage of assets (provisions).

The outcome with regard to these three indicators, as indicated in Figure 2, clearly favored the first quartile (strong women-focus). The first quartile resulted in lower median PAR>30 days of 2.52% vs. a median of 4.05% for all quartiles and a lower median write-off ratio of 0.42% vs. a median of 0.83 for all quartiles. Portfolio quality for the first quartile also looks healthier than for the other quartiles.

Figure 3

Median of number of borrowers by women-focused quartiles



Source: The Mix, Credit Suisse

Outreach and operating costs

With regard to outreach, the first quartile (strong women-focus) has the highest number of borrowers, as demonstrated in Figure 3. The median of the first quartile is 31,059 borrowers compared to the median of 25,877 for all quartiles.

Focusing on women is generally assumed to be more costly for MFIs, because women tend to borrow smaller amounts, are less mobile and are less educated in many developing and emerging countries. We indeed find evidence, as indicated in Figure 4, that the average loan size per borrower (avg. loan size) is the smallest in the first quartile with a median of USD 161 compared to the median of USD 377 for all quartiles.

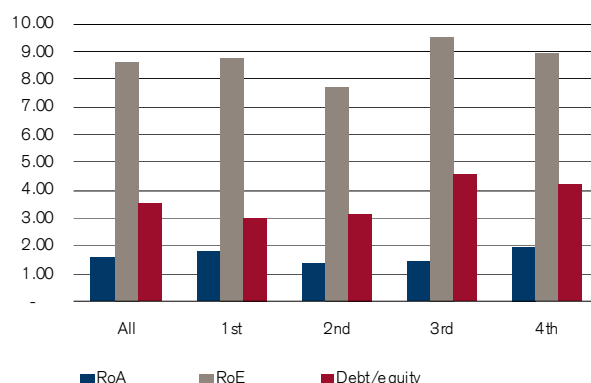
As indicated in Figure 4, however, the cost per borrower (cost) is much lower in the first quartile, with a median of 37 USD vs. the median of 97 USD for all quartiles. The overall operating expenses compared to the loan portfolio (operating expenses/LP), though, are the highest for the first quartile, with a median of 21% vs. the median of 18% for all quartiles. This outcome supports the observation that MFIs with a strong women-focus tend to have higher operating expenses, which come from a broader outreach to a smaller-sized borrower population.

Profitability

In order to achieve a more complete picture with regard to the financial performance of MFIs targeting women, we looked at return on assets (RoA), return on equity (RoE) and the capital structure represented by debt/equity. As seen in Figure 5, the median RoA and RoE for the first quartile is above the median for all quartiles. Median RoA for the first quartile is 1.84% vs. 1.61% for all quartiles. Median RoE for the first quartile is 8.76% vs. 8.63% for all quartiles. Leverage for the first quartile, represented by the debt/equity ratio, is the lowest of all quartiles, with a median of 3.04 vs. 3.57 for all quartiles. We therefore do not find evidence for lower profitability of MFIs with a strong women-focus, despite generally higher total operating costs. In fact, return on assets and return on

Figure 5

Median RoA, RoE and debt/equity in 2009



Source: The Mix, Credit Suisse

equity are equal or higher and leverage is lower, which may be taken as an indication of sustainable outreach.

Conclusion

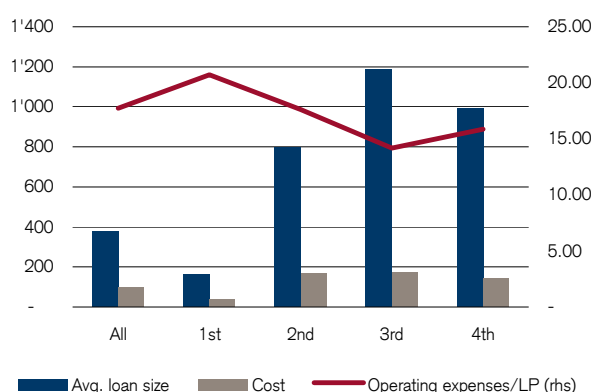
With the increasing provision of microfinance services to a broad population of poor people around the world, the original women-focus of microfinance has started to change. Ongoing commercialization has a strong focus on growth and therefore pursues a variety of business models. In order to achieve higher growth rates, MFIs often enlarge their customer base and, accordingly, their product offerings.

The overall results of our analysis with regard to credit quality, outreach and profitability, based on 2009 data across 550 MFIs around the world, indicate that focusing on women remains attractive from a financial and social point of view. Eight of the ten largest MFIs by number of borrowers have a strong women focus.

Furthermore, investing in MFIs focusing on women contributes to the pursuit of the Millennium Development Goals of the UN and is favorable to the development of economies that still demonstrate high gender discrimination.

Figure 4

Median for loan size, cost and operating expense/LP in 2009



Source: The Mix, Credit Suisse

We wish to thank Ritu Vats of Credit Suisse Business Analytics (India) Private Limited for contributing to this publication.

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Abb.	Description	Abb.	Description	Abb.	Description
CAGR	Compound annual growth rate	EPS	Earnings per share	P/B	Price-to-book value
CFO	Cash from operations	EV	Enterprise value	P/E	Price-earnings ratio
CFROI	Cash flow return on investment	FCF	Free cash flow	PEG	P/E ratio divided by growth in EPS
DCF	Discounted cash flow	FFO	Funds from operations	ROE	Return on equity
EBITDA	Earnings before interest, taxes, depreciation and amortization	IBD	Interest-bearing debt	ROIC	Return on invested capital

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HOLD: variation between -10% and +10% in absolute share price
SELL: 10% or more decrease in absolute share price
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