



An Overview of the Frequency of Credit Plus Services Offered by Global Microfinance Institutions

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Abstract

Microfinance Institutions (MFIs) can either specialize as credit-only institutions, or MFIs can provide products in addition to microloans, referred to as credit-plus services (CPS). A literature review on the impact of offering CPS reveals that participation in CPS positively correlates with improved financial and social welfare for clients, as well as improved repayment rates for MFIs that offer such services. Based on the most recent MIX Market data (2014), 81% of 1,126 global MFIs report to offer at least one CPS, with insurance and savings programs as the most popular CPS (offered by 72.82% and 54.88% of reporting MFIs respectively). MCE's portfolio is high-performing in CPS, matching the industry average of 81% for MFIs offering at least one type of CPS.

Executive Summary

Microfinance Institutions (MFIs), on the most basic level, offer credit to those traditionally excluded from the financial services sector. In addition to providing a line of credit for those who would likely be unable to obtain capital from traditional banks, some MFIs also offer credit-plus services (CPS), or services outside of traditional loan products. CPS includes additional financial products such as savings accounts, insurance, and mobile banking, as well as non-financial products such as health services, financial literacy programs, and energy efficiency programs.

Recent literature on the impact of CPS suggests that both MFIs and MFI clients stand to benefit from microfinance organizations that offer CPS. Offering CPS has been positively correlated with an improvement in income, assets, employment,

and household expenditure for clients.¹ The literature also suggests that offering CPS leads to higher repayment and client retention rates for MFIs.

Based on 2014 MIX Market data, 81% of 1,126 reporting MFIs offer at least one credit-plus service, with Africa showing the highest percentage of MFIs offering CPS (95%), and Eastern Europe and Central Asia showing the lowest percentage of MFIs offering CPS (56%). Out of all types of CPS, Insurance services are the most common (72.82%), while Mobile Banking is the least common (10.24%).

MCE's commitment to MFIs providing CPS is reflected in 81% of its portfolio, matching the industry average of reporting MFIs with at least one type of credit-plus service. This average should be considered in light of MCE's portfolio representing MFIs in Eastern Europe and Central Asia, more so than the MIX Market data (33% vs. 20%). Eastern Europe and Central Asia represent the region with the lowest percentage of CPS offering MFIs from the MIX Market data (56%). MCE's portfolio also represents Africa less than the MIX Market data (5% for MCE vs. 24% for MIX). (See Appendix Table 0).

MCE is comparable, or outperforms the MIX Market average for MFIs in three categories: *health education and services* (30% of portfolio MFIs vs. 25%), *business education and financial literacy services* (56% of portfolio MFIs vs. 61%), and *energy efficiency services* (26% of portfolio MFIs vs. 21%). MCE's partner MFIs offer *additional financial services* at a lower percentage than the MIX market average (63% of portfolio MFIs vs. 76%).

Among microfinance investment vehicles (MIVs), a 2015 market analysis and peer survey of 84 MIVs (representing 96% of the MIV market asset base) revealed that while on average 80% of MIVs' total assets are invested in MFIs, just 7% of total assets are used in financing activities other than MFIs, such as agriculture, SMEs, healthcare and education (liquidities and other assets make up the remaining 13%).²

Introduction

With the emergence of MFIs offering CPS, discourse in the industry has focused on determining the benefits and costs of offering services outside of traditional loan products for MFIs. MCE's portfolio currently places an emphasis on lending to MFIs that provide credit-plus services, owing to MCE's belief that affordable credit is just one important part of a broader set of services needed by people lifting themselves out of poverty. This analysis seeks to better understand the

¹ Signe-Mary McKernan, "The Impact of Microcredit Programs on Self-Employment Profits: Do Noncredit Program Aspects Matter?" *The Review of Economics and Statistics* 84 (2006): 93-115.

² Symbiotics, "2015 Microfinance Investment Vehicles Survey: Market Data & Peer Group Analysis," Symbiotics, (2015).

effectiveness and availability of CPS, as well as draw a comparison of MCE's portfolio compares across the industry and among peers.

To answer these questions, this paper provides a literature review examining the impact of credit-plus services and the advantages and disadvantages of credit-only versus credit plus MFIs. The research then summarizes current statistics on the number of MFIs that provide CPS, and the types of CPS provided. The percentage of MCE's portfolio clients offering CPS is then compared to the total percentage of global MFIs reporting to offer CPS.³

Definition of Credit-Plus Services

Credit-plus services are products offered by MFIs that fall outside of traditional loan products for clients. Such services can include savings programs, insurance programs, and mobile banking services, as well as non-financial services such as healthcare clinics, vocational training, and financial literacy programs.

For this report, we divide credit-plus services into the following categories, as per the data available through MIX Market: savings services, insurance programs, mobile banking, remittance services, financial literacy programs, health education and services, business development service, women's empowerment programs, and energy efficiency initiatives.⁴

Literature Review on Credit-Plus Services

Recent literature on CPS offered by MFIs have focused on two areas: first, the impact of CPS, and second, the comparison of credit-only MFIs versus MFIs that offer credit-plus services in terms of their net benefit to clients.

Studies generally agree as to the positive impact of offering credit-plus services to the clients served by MFIs. A 2008 study by the Indira Gandhi Institute of Development Research found that the provision of CPS by MFIs is positively correlated with improvement in income, assets, employment, and household expenditure. In particular, insurance services reduced the vulnerability of families served by MFIs, while skill enhancement training served to empower people living in poverty. MIT's Urban Institute, in 2002, published a report suggesting large positive effects of the noncredit aspect of participating in MFI programs on self-employment profits.⁵ A 2006 study by Yale University and the Economic Growth Center offered business training to treatment groups of micro-entrepreneurs in Peru, and found that offering business training not only

³ The total number of MFIs reporting to MIX is 1700. Of those, 1,126 (66%) have indicated whether or not CPS is part of their overall portfolio.

⁴ Technical assistance is counted under business development services.

⁵ McKernan, "The Impact of Microcredit Programs", (2006).

improved revenues and knowledge for the entrepreneurs, but also led to higher repayment and client retention rates for the microfinance institution.⁶ According to a 2002 paper examining “Credit with Education” programs in Ecuador, Honduras, Burkina Faso, and Thailand, the provision of these services led to positive changes in health knowledge and dietary quality, while also providing positive impacts to women’s self-confidence and community status.⁷

The University of Groningen published a 2011 paper examining if MFIs should specialize as only offering financial services, or also offer non-financial, credit plus services.⁸ Using a set of data that included 290 MFIs in 61 countries, the paper found that MFIs offering CPS did not perform as well financially compared to their credit-only counterparts, but tended to be more social, offered lower average loan sizes, and focused more intently on vulnerable populations. The paper concluded that MFIs should provide CPS if its main goal was to serve the poor, despite the possibility of lower financial performance.⁹

Methodology

In order to provide a survey of the number of MFIs that offer CPS and the types of CPS offered, we used data obtained from MIX Market, an authoritative center for data on microfinance institutions. MIX Market provides a cross-market analysis tool, which provides data on the products and services offered by reporting MFIs, including credit-plus services. The most recent annual data from MIX market is from the year 2014, which we use as the latest year in our study. The results below are limited by the availability of data—not every MFI in the MIX Market database reported its status on CPS offerings (33% unreported). The below data may thus not be representative of the entire MFI market, since the MFIs with available data are not necessarily a random sample.

To determine the number of MFIs providing each category of CPS, we used the cross-market analysis tool as follows: 1) Savings Services were represented by the MIX Market categories “Voluntary Savings Accounts” and “Compulsory Savings Accounts”, 2) Insurance Programs were represented by “Voluntary Insurance” and “Compulsory Insurance”, 3) Mobile Banking was represented by “Offers other financial services > Mobile/branchless banking services”, 4) Remittance Services was represented by “Offers other financial services > Remittance/money transfer services”, 5) Financial Literacy was represented by “Other education service types offered > Financial literacy education”, 6) Health Education and Services were represented by “Other education service types

⁶ Dean S. Darlan and Martin Valdivia, “Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions”, *Economic Growth Center*, 941 (2006).

⁷ Christopher Dunford, “Building Better Lives”, *Journal of Microfinance* 3(2001):1-25.

⁸ The paper does not include savings accounts, insurance services, or any additional financial services under CPS, differing from our definition.

⁹ Lensink, (2011).

offered > Basic health/nutrition education” and “Health Services (nonfinancial)”, 7) Business Development was represented by “Enterprise services (nonfinancial)”, 8) Women’s Empowerment was represented by “Women’s empowerment services (nonfinancial)”, and 9) Energy Efficiency was represented by “Environmentally friendly credit product offering > Products related to energy efficiency (e.g. insulation, improved cook stoves, etc.)”, “Environmentally friendly credit product offering > Environmentally friendly practices or products related to environmentally friendly practices (e.g. organic farming, recycling, waste management, agroforestry or silvopasture, clean water, etc.)”, and “Environmentally friendly credit product offering > Products related to renewable energy (e.g. solar panels, biogas digesters, etc.)”.

The results were then segmented by the following regions: Africa, East Asia and the Pacific, South Asia, Latin America and the Caribbean, Middle East and North Africa, and Eastern Europe and Central Asia. Further segmentation by legal status, scale, outreach, and age, shows that the reporting MFIs are most representative of NBFIs (Non-Bank Financial Institution), NGOs (Non-governmental Organization), and Credit Union/Cooperatives (86% of reporting MFIs), evenly distributed between large, medium, and small organizations in terms of scale and outreach, and favoring mature organizations in terms of age (80%) (Table 0).

(Table 0) Reporting MFIs in MIX Market Data Groupings			
		n	% of Total MFIs
Total MFIs		1126	100%
Region			
	Latin America and The Caribbean	296	26%
	Africa	268	24%
	Eastern Europe and Central Asia	221	20%
	South Asia	204	18%
	East Asia and the Pacific	105	9%
	Middle East and North Africa	32	3%
All Reporting Region		1126	100%
Legal Status			
	NBFI	399	35%
	NGO	365	32%
	Credit Union / Cooperative	206	18%
	Bank	90	8%
	Other	23	2%
	Rural Bank	21	2%
All Reporting Legal Status		1104	98%
Scale			
	Large	331	29%
	Medium	156	14%
	Small	142	13%
All Reporting Scale		629	56%
Outreach			
	Large	233	21%
	Small	225	20%
	Medium	142	13%
All Reporting Outreach		600	53%
Age			
	Mature	901	80%
	Young	176	16%
	New	38	3%
All Reporting Age		1115	99%

Source: MIX Market, "Cross Market Analysis", last accessed February 04, 2016,
<http://www.mixmarket.org/profiles-reports/crossmarket-analysis-report>.

Results

Out of 1,126 reporting MFIs in 2014, 81% offered at least one CPS, while 19% were credit-only institutions. Africa has the highest percentage of MFIs offering CPS, with 95% of the 268 reporting MFIs offering at least one credit-plus service. Eastern Europe and Central Asia had the smallest number of reporting MFIs with credit plus, with only 56% of the 221 reporting MFIs claiming to offer CPS (Table 1).

	Offer CPS	% Offer CPS	Credit-Only	% Credit Only	Total
Africa	255	95%	13	5%	268
East Asia and the Pacific	97	92%	8	8%	105
South Asia	176	86%	28	14%	204
Latin America and The Caribbean	234	79%	62	21%	296
Middle East and North Africa	24	75%	8	25%	32
Eastern Europe and Central Asia	123	56%	98	44%	221
All Regions	909	81%	217	19%	1126

Source: MIX Market, "Cross Market Analysis", last accessed February 04, 2016, <http://www.mixmarket.org/profiles-reports/crossmarket-analysis-report>.

Examining the types of CPS offered by reporting MFIs, savings services (voluntary and compulsory) are the most commonly offered CPS in Africa (88.81%), and East Asia and the Pacific (87.62%), insurance services (voluntary and compulsory) are the most commonly offered CPS in Eastern Europe and Central Asia (36.65%), and Latin America and the Caribbean (84.12%), and South Asia (99.51%), while Business Education Services are the most commonly offered CPS in the Middle East and North Africa (56.25%). Insurance services are the most commonly offered type of credit plus service out of all reporting MFIs (72.82%). Mobile Banking is the least commonly offered CPS across the 1,126 reporting MFIs, with only 10.24% of MFIs offering this service (Table 2).

(Table 2) MFI Credit-Plus Service Offerings by Region (2014)

		Health Education & Services								
	<i>n</i>	Savings	Insurance	Mobile Banking	Remittance	Financial Literacy	Business Development	Women's Empowerment	Energy Efficiency	
Africa	268	88.81%	71.27%	18.28%	39.93%	54.48%	22.20%	40.67%	35.45%	18.59%
East Asia and the Pacific	105	87.62%	79.05%	11.68%	28.23%	57.14%	8.61%	49.52%	34.29%	33.18%
Eastern Europe and Central Asia	221	34.84%	36.65%	7.94%	16.76%	29.91%	9.15%	31.67%	9.95%	13.62%
Latin America and The Caribbean	296	41.55%	84.12%	7.77%	32.09%	43.95%	19.45%	33.11%	37.50%	17.90%
Middle East and North Africa	32	18.75%	40.63%	15.63%	12.50%	28.13%	1.33%	56.25%	37.50%	34.38%
South Asia	204	40.20%	99.51%	4.17%	6.12%	41.40%	15.36%	57.35%	62.75%	25.26%
All Regions	1126	54.88%	72.82%	10.24%	25.33%	44.02%	15.82%	41.21%	35.88%	20.45%

Source: MIX Market, "Cross Market Analysis", last accessed February 04, 2016, <http://www.mixmarket.org/profiles-reports/crossmarket-analysis-report>.

MCE's client MFIs perform strongly in comparison to the MIX Market averages in terms of offering credit-plus services. 81% MCE's portfolio MFIs offer at least one type of credit-plus service, staying on target with the MIX Market average of 81%. This average is especially impressive given that over 35% of MCE's portfolio consists of clients from Eastern Europe and Central Asia, which is the region with the lowest percentage of CPS offering MFIs from the MIX Market data. MCE outperforms the MIX Market average for MFIs offering health education and services (offered by 30% of portfolio MFIs) and energy efficiency services (26% of portfolio MFIs), while MCE's MFI partners offer additional financial services at a slightly lower percentage than the MIX market average (63% of portfolio MFIs) and are comparable in terms of financial literacy and business development (56%). The performance of client MFIs in terms of CPS offerings speaks well to MCE's efforts in partnering with MFIs that offer programs beyond traditional loan products (Table 3).

(Table 3) MCE Client MFI Credit Plus Services Compared to Aggregate CPS Data (2014)		
	MCE's Client MFIs	MIX Data
Any Credit Plus Service	81%	81%
Additional Financial Services	63%	76%
Health Education and Services	30%	25%
Business Development & Fin. Literacy	56%	61%
Energy Efficiency	26%	21%

Source: MCE Data, MIX Market, "Cross Market Analysis", last accessed February 04, 2016, <http://www.mixmarket.org/profiles-reports/crossmarket-analysis-report>.

Conclusion

Based on the results of the MIX Market data for 2014, a large percentage of global MFIs (81%) offer at least one credit-plus service. Globally, credit plus services that are additional financial services (e.g. savings and insurance) are more commonly offered than non-financial products, such as energy efficiency programs. The higher percentage provision of additional financial services is likely due to the perceived synergies of providing micro-insurance and savings accounts for ensuring repayment of loans to the MFI, since such additional financial services would add to the financial health of an MFI's clients.

MCE's portfolio of MFIs focuses strongly on those that offer credit-plus services, consistent with the percentage of MIX market MFIs with CPS. MCE currently places a strong emphasis on examining the type and frequency of CPS offered by potential borrowers during the due diligence process. Given the largely positive correlation between an MFI offering CPS and an MFI's impact on its clients, MCE's emphasis on CPS demonstrates a commitment towards targeting socially impactful MFIs.

Further research could show the change in the number of MFIs that offer CPS over time, as well as changes over times in the types of CPS offered, in order to get a sense of trends in credit-plus services offered by MFIs. For MCE's internal purposes, MCE may also wish to replicate the University of Groningen's study on the impact on outreach and financial returns of offering CPS, using MCE's portfolio MFIs. MCE could also compare its CPS offerings to the MIX Market data after weighing the MIX Market data to reflect MCE's region composition. In terms of concrete steps, MCE should continue to place an emphasis on

determining the type and frequency of CPS offered by potential clients during the due diligence process. MCE’s staff and guarantors currently conduct research trips to client sites and observe CPS trainings offered by clients. These trips could provide additional information on the impact of CPS offered by MCE’s portfolio MFIs.

Appendix

Source: MCE Data, MIX Market, “Cross Market Analysis”, last accessed February 04, 2016, <http://www.mixmarket.org/profiles-reports/crossmarket-analysis-report>.

(Table 0) MCE vs. MIX Market Regional Composition			
	MCE	MIX Market	% Offering CPS
Africa	5%	24%	95%
East Asia and the Pacific	5%	9%	92%
Eastern Europe and Central Asia	33%	20%	56%
Latin America and The Caribbean	35%	26%	79%
Middle East and North Africa	0%	3%	75%
South Asia	19%	18%	86%

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