
Critically Appraised Topic (CAT)

INNOVATION IN MICROFINANCE ORGANIZATIONS

EDB 9120: Evidence Based Management – Dr. Richard Baskerville

Dr. Sarah Kayongo

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BACKGROUND

The World Bank defines *financial inclusion* as affording individuals:

“The availability and equality of opportunities to access financial services.”

Studies have shown significant economic improvements when individuals and businesses have access to affordable financial products and services that they can apply toward meeting their needs through transactions; payments, savings, loans and insurance (Yunus, 1999; Banerjee, Duflo, Glennerster & Kinnan, 2009)

Area of concern: Why Innovation in Microfinance

Problem Statements and Gaps

Problem Statement

01

Many studies have addressed the lack of Financial inclusion and suggested that it can be improved through innovative interventions such as mobile payments, block chain, biometric data, crowd funding and microfinance to mention but a few.

02

Microfinance has been proven as a tool for reaching low-income men and women who are left out of the formal financial sector (Ledgerwood, 1998; Ledgerwood, Earne, Nelson, 2013).

03

The 2018 Findex study by the World Bank suggested that around 2 billion people don't use formal financial services; moreover, **half of them reside in rural areas**

Gap

01

BUT – We lack knowledge on **how** such innovations can be designed and managed.

02

BUT – While the success of microfinance is well documented (Armendariz & Morduch, 2010; McIntosh, 2005), there is still room for improvement to meet existing demand.

03

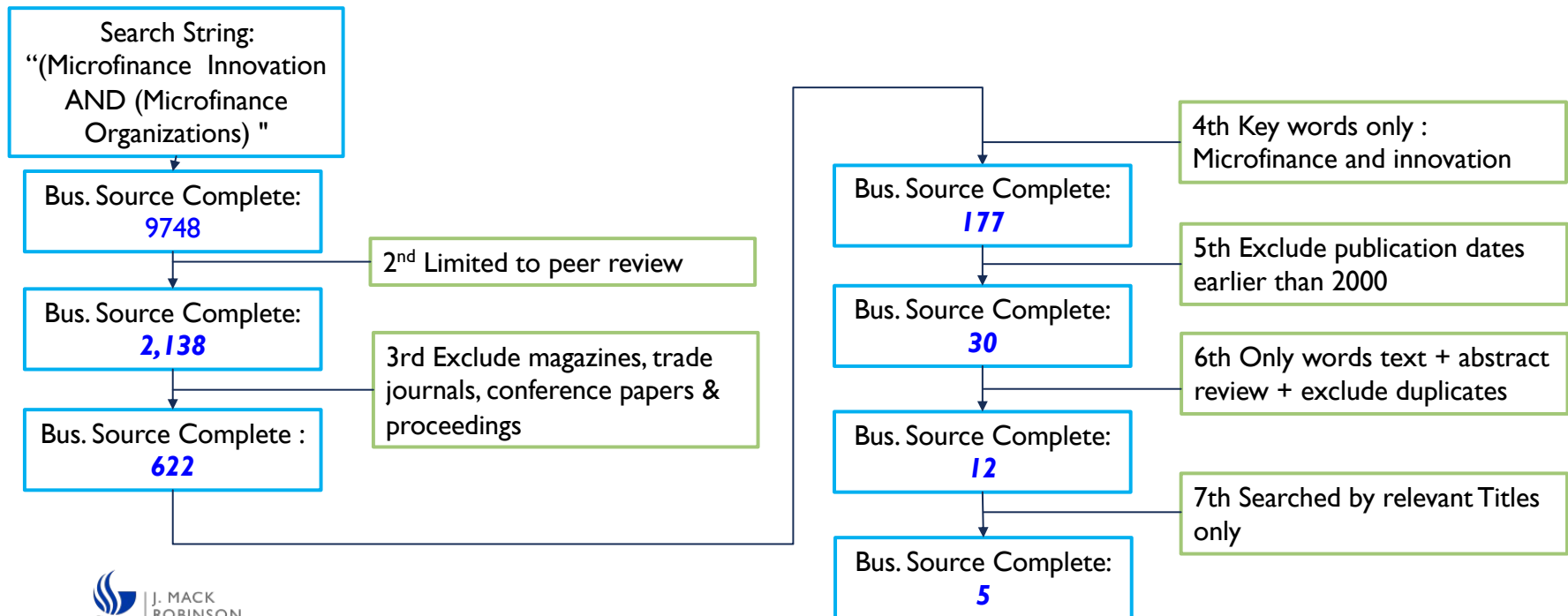
BUT – The delivery of Microfinance to rural clients is still a challenge: moreover, creating innovative breakthroughs in the delivery of microfinance services to scale is one of the greatest challenges facing the industry today.

RQ & PICOC

“Does innovation in the delivery of micro-finance products and services improve financial inclusion”?

- **P = Problem or population** Last mile delivering of financial services for the 2 billion unbanked rural clients
- **I = Intervention or success factor** Innovation in the delivery of microfinance products & services
- **C = Comparison** Case studies of microfinance nonprofit and for profit institution Vs. other design
- **O = Outcome** Improving Financial Inclusion for the 2 billion unbanked rural clients
- **C = Context** Contribution to United Nations Sustainable Development Goal (SDGs) by 2030 and the World Banks Universal Financial Access goals by 2020

SEARCH STRATEGY



RESULTS: OVERALL VALIDITY

#	Article Titles	Research Approach	Empirical Basis	Analysis Method	Overall Validity
1	Navajas, S., Conning, J., & Gonzalez-Vega, C., (2003). Lending technologies, competition and consolidation in the market for microfinance in Bolivia.	Multiple case study design	Household surveys and loan records	Quantitative analysis using simple canonical benchmark model of moral hazard	Appropriate design and the Empirical evidence derived from multiple sources in a comparative case study of two of the most competitive MFLs in Bolivia was compelling
2	Dary, S., K., & Issahaku, H., (2013) Exploring Innovations in Microfinance Institutions in Northern Ghana	Multiple Experimental Design studies	41 MFLs that comprised of savings and loans companies, credit unions, and rural banks were surveyed	Quantitative analysis that applied descriptive statistics and analysis of variance (ANOVA)	Statistical analysis would have been more useful if applied to a larger sample. I don't think evidence provided from a study of MFI from northern Ghana alone can be conclusive
3	Kamal, L., (2016) Innovations in Microfinance Funding	Exploratory research design	Literature review of published articles	Qualitative study of published literature on innovation in microfinance	The study was conducted correctly. Empirical data from this study were useful in my decision to pursue studying innovation in microfinance further.
4	Moturi, C., & Mbiwa, P., (2015) An evaluation of the quality of management information systems used by SACCOs in Kenya.	Descriptive research design SACCOs	Survey questionnaires of 215 SACCOs	Mixed study surveys and open ended questionnaires	Mixed study was appropriate for an evaluation study.
5	Assefa, E., Hermes, N., & Meesters, A. (2013) Competition and the performance of microfinance institutions	Longitudinal Experimental design	Econometric analysis data from 362 MFLs in 73 countries	Quantitative analysis that used the Lerner index to measure competition	Although the conclusion was drawn from a very large sample :362 MFLs in 73 countries studies between 1995–2008. I wonder if considering any changes in variables during the period of study would have produced different results.

RESULTS: KEY FINDINGS

#	Article	Finding 1	Finding 2	Finding 3	Translation
1	Lending technologies, competition and consolidation in the market for microfinance in Bolivia	Profitable micro lending is possible when appropriate lending technology is used	Alternative lending technologies can be both profitable in reaching the poorest clientele, however, increased competition can disrupt outreach	Competition improves access for everyone and forces a reduction in interest as well as spur innovation	While competition in lending technologies resulted in greater outreach in the Bolivian context, in contrast, finding 2 of Article 5 indicate negative association between competition and outreach as well as loan repayment performance of MFIs. This suggests that findings in Bolivia could not be generalizable in other contexts of MFIs.
2	Exploring Innovations in Microfinance Institutions in Northern Ghana	Based on just of new loan products in the past 3 years, 4.9%, 39%, 36.6%, and 19.5% of MFIs were found to be potential innovators, slow innovators, moderate innovators and high innovators respectively	The study established significant relationships between company characteristics such as frequency of board meetings, overall staff skill, ownership structure, footprint, company age and location and the extent to which they innovate.	The adoption rate of micro insurance is found to be very low (14.6%) among MFIs.	Findings here are not conclusive, the sample size is limited to MFIs in Sothern Ghana, I doubt the finding would be generalizable even within Ghana
3	Innovations in Microfinance Funding	Due to the subsidy dependence of MFIs, the constant challenge lies in their ability to secure adequate and sustainable funding	Diversifying financial instruments for MFIs such as the issuance of microfinance impact bonds (MIBs)	Microfinance impact bonds allow investors to reap competitive financial returns from social entrepreneurship and alleviate poverty at the same poverty	If risk assessment is a factor to low levels of innovation based on findings 3 in article 2, then how is diversifying financial instruments as suggested in finding 2 of article 3 become a possibility. The question then becomes does innovation in microfinance funding alone improve financial inclusion?
4	An evaluation of the quality of management information systems used by Savings and Credit Cooperatives (SACCOs) in Kenya.	There is an absence of standards and performance agreements which makes it hard for SACCOs to enter into service level agreement (SLA) with vendors	Lack of clarity on software reviews, user acceptance testing and overall partnership with SACCOs	SACCOs and vendors need to form a project management team to carry out the post implementation	Findings 1,2 & 3 here add to findings in articles 2 concerning risk management as some of the major factors that hinder innovation in microfinance products or services
5	Competition and the performance of microfinance institutions	MFIs have lower outreach when faced with intense competition	Negative correlation between competition and loan repayment performance of MFIs	Increased competition among commercial MFIs posed a potential threat to its longer-term stability and success.	Findings here seem to have more validity based on the extensive nature of the study over a period of time but as I suggested, they contrast findings in a similar context of competition in Bolivia indicating that changes in context and design may yield different results so they are not conclusive

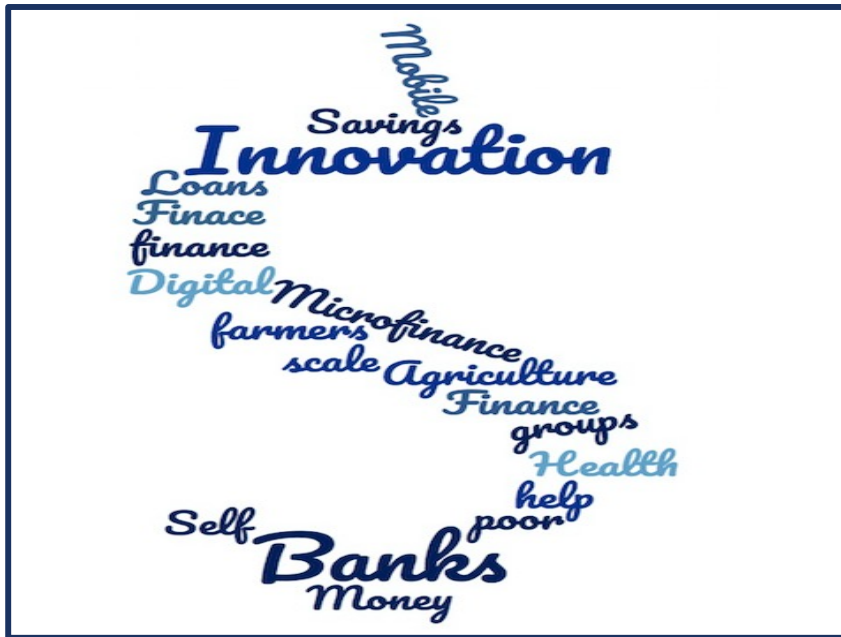
CONCLUSION

1 Whereas competition and innovation in lending technologies improved outreach and hence financial inclusion in Bolivia, it was not clear whether such success would be sustained overtime. Success overall was far apart and not generalizable

2 Diverse financial instruments e.g. microfinance impact bond (MIBs) are innovative financial products but considering the risks associated with lending to the poor who lack collateral and live in remote places, delivering only one product offering may not be a viable way improving financial inclusion

3 Innovation in microfinance product and service delivery is hindered by poor vendor support services, training and post software implementation

RECOMMENDATIONS



- Innovation in diverse products and services tailored to clients' needs and delivered using appropriate contextual technologies may improve financial inclusion
- MFIs have to consider risk factors associated the delivery of financial products and services to poor clients who live in remote places; therefore, innovation in risk assessment tools that both mitigate and increase scale will be critical to improving financial inclusion
- A need to standardize and improve vendor support services, training and post software implementation aimed at ensuring continuous innovation may improve financial inclusion

LIMITATIONS & AREAS FOR FUTURE RESEARCH



- The strength of this analysis is that we uncovered some success cases of how basic innovation in lending technologies increased impact – hence improved financial inclusion, however, there was insufficient evidence to suggest how that success would produce the same results if replicated in other contexts.
- Future research may benefit from diverse methodologies and mixed designs
- Future research may benefit from studying innovation in the delivery of diversified financial products and services beyond MIBs

*MFI: Microfinance institution

*MIBs: Microfinance Impact bonds

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