

Can risk-based pricing improve social and financial efficiency of microfinance institutions, its impact on financial inclusion and access to traditional banking services?

The microfinance industry was established with the main purpose to provide financial services to people who generally have no access to traditional banking because of their low, irregular or unpredictable income. Microfinance industry is expanding rapidly with an annual growth of over 9% in the global portfolio of loans and the number of active borrowers serving around 123 million customers worldwide ⁽¹⁾.

Financial environments where Microfinance institutions operate differ from country to country, some markets are highly regulated, others provide flexible conditions for microfinance business. A naturally raised question is how efficient microfinances are when we compare institutions across different economies and to what extent market conditions impact the efficiency. Using the extensive database of financial, operational and social performance indicators of service providers, the first part of the work describes results of an empirical study of social and financial efficiency based on data envelopment modeling approach. Research investigates further how optimization of credit decisioning results on MFI efficiency and subsequently on financial inclusion.

The microfinance industry is now seen not only as a tool to improve living conditions and reduce poverty, but also as an opportunity for consumers to build their credit history and subsequently access traditional banking services⁽²⁾ Thus, the second part of the work uses the data collected by a credit bureau to study dependency between the social and financial efficiency of MFIs and its impact on transition of consumers towards the traditional banking services.

- (1) Microfinance Barometer 2017, research published by Convergences, <https://group.bnpparibas/en/news/microfinance-barometer-2017-global-trends-sector>
- (2) Report published by IFC <https://www.ifc.org/wps/wcm/connect/f764ae004a8ea1d7b35cff9c54e94b00/FIG+Microfinance+Factsheet+FY16.pdf?MOD=AJPERES>