



Experts' Opinion upon Factors Influencing Microfinance Organizations' Targets: Microfinance Banks vs. Microfinance Institutions

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Abstract: Microfinance has always been a debated and documented word as it was considered to alleviate poverty. Since its inception, the main objective of microfinance organization was to maximize outreach for the poor people. Unfortunately in Pakistan these organizations have not been meeting their targets for the last few years. This paper has identified factors that influence microfinance organizations and how experts of microfinance banks and microfinance institutions have rated those factors. Interviews were conducted for identification of factors of microfinance which were rated through fuzzy aggregations technique. Results showed that all factors scored from 1 to 3 except non-commercial funding pattern for microfinance banks because commercially oriented organizations mostly relied upon commercial banks. Governance was the most important factor for both streams because it helped them to tackle their problems.

Keywords: Microfinance Organizations, MFBs, MFIs, Factors, Fuzzy, Pakistan

1. INTRODUCTION

Microfinance is considered as one of the mainly debated and documented word in banking fields. Many people in developing countries do not have access to get credit facility from formal banking services because of inability to provide collateral and high operation cost (Hermes and Lensink, 2007). Microfinance organizations (MFOs) are working as development tool by providing financial services like savings, insurance and credit facility to the poor household especially female (Donaghue, 2004). Thus microfinance is supposed to be an important vehicle for empowering and changing the life of underserved people in the world and improves the life style of the people (Khandker, 2005).

Existing literature has shown that the most important element for microfinance institutions is growth (Lapenu and Zeller, 2002; Rauf and Mahmood, 2009). MFOs are facing problems as they could not attain the target of three million borrowers by the end of 2010 and the main issues are retail capacity, limited capital, over-dependence on subsidies, loan size, limited funding, governance, limited market research, regulatory asymmetry and low consumer awareness faced by this sector (State Bank of Pakistan, 2011). Pakistan has a potential market of thirty million borrowers and next target of MFOs is to reach ten million borrowers by the end of 2015 (Rauf and Mahmood, 2009). There are 2.8 million active borrowers in Pakistan by the end of September, 2013

(Pakistan Microfinance Network, 2013). These figures are showing that this sector is still facing some problems in achieving these targets. The aim of the present study is to identify the factors affecting MFOs in achieving their targets. Secondly to know the experts opinion from Microfinance Banks (MFBs) and Microfinance Institutions (MFIs) that how they rate each identified factor about the importance of each force.

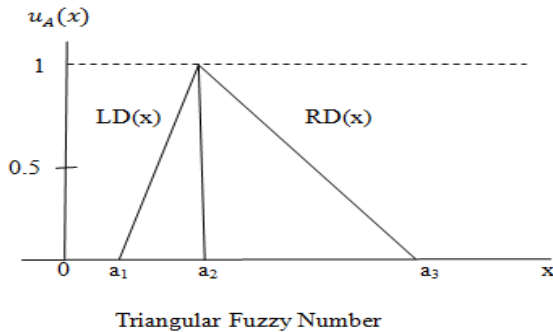
2. MATERIALS AND METHODS

Qualitative research was used for identifying the factors and then a questionnaire was designed for experts' rating. Mixes of stratified and snowball samplings were used for this research. Data was collected through interviews for exploring the factors and a self-administered questionnaire on a five point likert scale was used for experts' ratings. Data was analyzed on computer assisted software using open, axial and selective coding for exploring the factors. Fuzzy aggregation was used for the second purpose. The purpose of this technique was to get experts rating and then to rank the identified factors. A triangular fuzzy number is used for experts' rating. Muzaffar and Deng (2012) defined triangular fuzzy as:

u_A(x) = { 0, LD(x)/2, RD(x)/2, 1 } Where

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$$\begin{cases} x \leq a_1 \\ a_1 \leq x \leq a_2 \\ a_2 \leq x \leq a_3 \\ x \geq a_3 \end{cases}$$



Fuzzy aggregation consist of two steps i.e. aggregation of experts and scoring the factors (Deep et al., 2007). There were three methods i.e. aggregation was average scores of experts, aggregation was a triangular fuzzy set, and aggregation was uniform fuzzy set (Sylvain et al., 2013). Method number two was used for aggregation as suggested for triangular fuzzy number. Following steps were taken for computing the scores:

Step 1 (Aggregation of Experts):

Aggregation of the experts using $\alpha = 0.5$ (Kaufmann et al., 1985):

$$\bar{A}_\alpha = [(a_2 - a_1) \alpha + a_1, -(a_3 - a_2) \alpha + a_3]$$

Where

a_1 = minimum

a_2 = most likely (average response)

a_3 = maximum

$$\partial_{12} = \frac{LD(\bar{R}_1, \bar{R}_2) + RD(\bar{R}_1, \bar{R}_2)}{\text{Minimum (Maximum - Minimum)}}$$

Step 2 (Normalized Distances):

$$D_{12} = 1 - \partial_{12}$$

Step 3 (Similarity Matrix):

$$\text{Similarity Matrix} = \begin{matrix} E_1 & \begin{bmatrix} 1 & D_{12} & D_{13} \\ & 1 & D_{23} \\ & & 1 \end{bmatrix} \\ E_2 & \\ E_3 & \end{matrix}$$

Step 4 (Average Similarity Matrix):

$$A(E_i) = \frac{1}{2} (D_{12} + D_{13})$$

Step 5 (Relative Similarity Degree):

$$\text{Relative Similarity Degree} = RSD_1 = \frac{AE_1}{\sum_{i=0}^n AE_i}$$

$$\hat{R} = \frac{(a_1 + 2a_2 + a_3)}{4}$$

Step 6 (Factors Scores)

$$\bar{R} = RSD_1(a_1 + a_2 + a_3) + RSD_2(a_1 + a_2 + a_3) + RSD_3(a_1 + a_2 + a_3) \dots \dots \dots + RSD_n$$

3. RESULTS AND DISCUSSION

1. Factors

(Table-1) showing factors which have been highlighted in this study and affect the performance of microfinance organizations.

Table-1. Identified Factors

Variables	Dimensions
Financing Pattern	Target Segment
	Lending Pattern
	Outreach Pattern
	Islamic Microfinancing
Objectives	Commercial Objectives
	Non Commercial Objectives
Source of Funding	Commercial Funding Pattern
	Non Commercial Funding Pattern
Product and Services	Purpose of a Product
	Product Type
	Development of a new Product
Target Market	People
	Geographical Area
Product Improvement and Promotional Strategies	Alternative Delivery Channels
	Challenges
	Future Prospects
Governance	Internal Governance
	External Governance

Financing pattern was the first variable which means that how MFOs finance to their customers. In this variable MFOs should decide while providing services to the customers that what were their target segment i.e. agriculture, services, trading etc. secondly they should decide whether they will finance individuals or group. What approach they will use for outreach and whether they will use Islamic microfinancing or not. Second variable was objectives of Microfinance organizations. A clear and stated objective provides direction to the stakeholders for better performance. There were two major objectives of Microfinance organizations: one was commercial and other was non-commercial. Appropriate funding sources helped MFOs to maximize their outreach. There were two types of sources for funds generation commercial and non-commercial (Jayadev and Rao 2012). Commercial sources can provide sufficient funds to meet the market demand but these sources were expensive. Non-commercial sources were less expensive but these resources were limited and could not fulfill the market demand. Product and services was consider another variable to influence MFOs (Meyer, 2002). Next variable was designing an

appropriate product for the customers. Microfinance organizations should decide the purpose of the product while providing services to the poor. Whether it is for financial purpose of the client or it is for wellbeing purpose of the client. Secondly they should decide of product and how they will develop a new product whether client based or research based. MFOs' performance was also depends upon the initiatives for product improvements. Many organizations introduced alternate delivery channels for providing ease to the customers. These initiatives could not only increase the performance of MFOs but also could reduce the cost. Other than alternative delivery channels MFOs should take steps to overcome challenges and to tap the untapped market. Targeting right area and right people was also important for MFOs (Meyer, 2002). Right target marketing can maximize the outreach of these organizations which was ultimate goal of these organizations. Last variable was governance mechanism of Microfinance organizations. Governance includes both internal governance and external governance. Better governance could help MFOs to achieve their targets.

Scoring of Identified Factors

(Table-2 and Fig.1) showing the scores of each stream against each dimension:

Table-2. Scores of MFBs and MFIs

Factors	MFBs	MFIs
Target Segment	1.64	2.04
Lending Pattern	1.55	1.63
Outreach Pattern	1.4	1.5
Islamic Microfinancing	2.65	2.5
Commercial Objectives	1.61	1.88
Non Commercial Objectives	1.96	1.88
Commercial Funding Pattern	1.58	2.31
Non Commercial Funding Pattern	3.33	2.56
Purpose of a Product	1.63	1.71
Product Type	1.63	2.04
Development of a new Product	1.35	1.67
People	2.28	2.22
Geographical Area	1.25	1.69
Alternative Delivery Channels	1.94	2.29
Challenges	1.8	1.92
Future Prospects	1.93	2.54
Internal Governance	1.28	1.5
External Governance	1.8	2.04

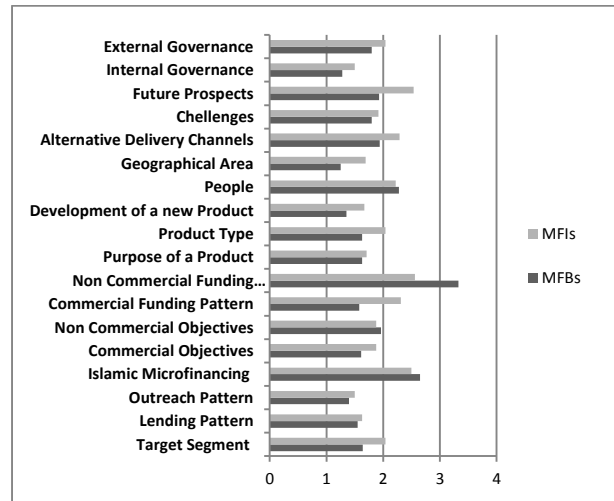


Fig-1: Scores of each dimension computed through expert's opinion

Expert's opinion from MFIs showed that their major focus was upon noncommercial objectives and raise their funds through non-commercial sources because in these factors MFIs' score was less than the MFBs. Religious was considered one of the important element in the success of MFOs (Mersland *et al.*, 2013) but organizations gave less importance to this factor with $\bar{R} = 2.50$ for MFIs. There might be several reasons for this. In Pakistan there was no law or ordinance was available for Islamic Microfinancing for banks. There were only few organizations working on Islamic Micorfinancing. Akuwat Foundation was leading in Islamic microfinancing. Other than Akhuwat, Wasil foundation was also working on Islamic principles. $\bar{R} = 3.33$ for non-commercial funding of MFBs depicting that commercial organization consider these sources unimportant and raise their funds through commercial funding sources which were comparatively expensive. Another factor i.e. target people's score showing that MFIs were more concerned with targeting people than MFBs because MFIs did not target the potential poor and target the people who were on poverty line and below poverty line. Financing pattern was the first variable and the score of their dimensions were showing that outreach pattern was most important than others while financing. Outreach pattern means that whether organizations used branches or branchless banking for providing financial services to them. Second variable was showing that MFBs major focus was upon the commercial objectives whereas MFIs giving equal importance to both commercial and non-commercial. Although the major objective of MFOs was poverty alleviation but today organizations are trying to have tradeoff between both objectives due to sustainability. An efficient organization should focus on both objectives (Braun and Woller, 2004). Next variable

was sources of funding. There were two types of sources which MFOs use for raising funds i.e. commercial and noncommercial. Industry was giving more importance to commercial funding than non-commercial because non-commercial sources were limited and not sufficient to meet the demand of the market. Product and services was also an important variable for the organization while delivering to the poor households. Scores were showing that the experts were giving more importance to the development of new product whether to use research base product or to introduce demand base product. Targeting right people into the right area would increase outreach. Scores of these factors showed that, geographical area was more important for the MFOs while targeting the people because most of the poor households live in rural areas and MFOs should target the areas where these people live. Next variable was products improvement and promotional initiatives. This variable includes alternative delivery channels, challenges which MFOs were facing and tapping the untapped market. Figures showed that the industry of microfinance was facing some challenges and giving less importance to the other factors than to overcome the challenges. Governance was a major obstacle towards the growth of MFIs (Hartarska, 2005) and regulatory supervision was also very important for the growth of MFOs (Hartarska and Nadolnyak, 2007). Last variable was also governance mechanism of the organization which includes internal and external governance where internal means corporate governance and external means regulation. Experts' were more concerned with the internal governance and giving more weight to internal than external. Internal governance is important because it helps the organization in designing appropriate risk mitigation strategies, operational structure and command & control mechanism was also depend upon the internal governance of the organizations.

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