MICRO CREDIT, PERFORMANCE AND TRANSFERS: EVIDENCE FROM SUB-SAHARAN AFRICA AND THE MENA REGION

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This volume[1] of *Savings & Development* focuses on two topics of growing importance in the landscape of economic development: microcredit and migrant remittances. So far, the microfinance industry is expanding and has played indeed a significant role in improving the livelihood of many poor people (Van Rooyen *et al*, 2012). At first glance, the 'microfinance promise' (Morduch, 1999) is fulfilled. However, microfinance institutions (MFIs) experienced success stories as well as failures that depend upon strategies *vis-à-vis* their customers and their maturity. It is worth noticing that MFIs from Sub Saharan Africa and the MENA region share similar features, although the former region is the poorest whereas the latter is the youngest in microfinance industry: they are facing extending regulation (Ndambu, 2011) and their expense ratio is the lowest (MIX & CGAP, 2012).

There is an ongoing debate regarding the trade-off between social outreach and financial sustainability in the microfinance industry. On the one hand, the so-called *welfarists*' school holds that the primary role of MFIs is to providing loans to people excluded from the traditional financial system; thus allowing these people undertake their own business and get out of poverty. On the other hand and according to the *institutionalists*' school, self-reliant MFIs should be able to fulfilling their mission on the long term by first looking for financial sustainability of their activities (Ledgerwood, 2000).

The trade-off issue encapsulates the mission drift issue. Mission drift may occur whenever MFIs favouring financial sustainability at the expense of so-

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cial outreach become mere commercial banks (Cull *et al*, 2006 and 2009); thus, they disregard the poor populations and lend to more affordable customers that are likely to take loans of higher amount, hence enhancing revenue for MFIs. In this connection, the founder of the *Grameen Bank*, Mohamed Yunus warned against loan sharks MFIs (Yunus and Weber, 2007).

Insofar lending is a two-sided mechanism wherein supply and demand interact, it involves risk related to asymmetric information and especially the default risk (loan delinquency). In the absence of collateral on the demand side, MFIs use various devices in order to secure the quality of their portfolio (Armendariz de Aghion and Morduch, 2010), although some of these may fail to eschew non-performing loans.

On the supply side, as the microfinance industry enlarges the credit market, it attracts various categories of donors that provide the funding of MFIs according to their characteristics. These donors, including stakeholders as well as shareholders, pay attention to both the social and financial performance of MFIs, albeit they do favour a different balance.

MFIs are gradually differentiating as regards their stage in development as well as regulatory environment wherein they operate. Since the financial crisis has occurred in the end of the 2000s, regulation is becoming a major concern regarding both the social and financial performance issue (MIX & CGAP, 2012).

Migrant remittances in developing economies is an increasing transfer flow, whose magnitude ranks first over official development assistance, except for Sub Saharan Africa (World Bank, 2014). The open question as for the impact of such transfers is twofold: one relates to economic development with respect to growth and unemployment *via* the funding of value added activities, which seems dubious (Plaza *et al*, 2011). The other one is the effect upon the balance of payments and in particular the conduct of monetary policy.

The articles in this volume address the aforementioned issues, focusing upon the MENA region (including Morocco and Djibouti) and West Sub Saharan Africa. Authors use various econometric techniques (simultaneous equations, logistic regression, ordered probit, VAR and cointegration) as well as in depth case studies upon large genuine datasets. The outcomes shed light on stylised facts; thus upgrading the microfinance literature and opening up new research avenues. The social performance *vs*. financial performance trade-off remains ambiguous: the relationship is negative as regards the MFIs in the MENA region (save Morocco) and WAEMU. Risk relates to social performance as well as financial performance: it is assessed with respect to the portfolio quality in Senegal and loan delinquency in Cameroon. So-called mesofinance addresses the funding of small businesses in Africa. Informal transfers from *hawalas* in Djibouti are accounted for and do have a positive impact.

Philippe Adair (University Paris-Est Créteil, France) and Imène Berguiga (University of Sousse, Tunisia) tackle the relationship regarding social and financial performance of 64 MFIs in nine countries from the Middle East and North Africa (MENA) region. Using panel data analysis over the period 1998-2011, they study both one-way and reciprocal dependency between these two performances; they document the various determinants according to information transparency, credit methodology, status, the operating area of MFIs and their macroeconomic environment. Simultaneous equations models show that social performance has a negative impact upon financial performance and conversely only for mature MFIs: hence, there is a trade-off albeit no clear interaction between these performances.

Lahcen El Kharti (University of Rouen, France) focuses on the main determinants of financial performance of 10 MFIs in Morocco, namely the Portfolio at Risk (PAR30) and maturity of these MFIs, which stand as a key reference in microfinance industry. Using panel data analysis over the period 2003-2010, outcomes suggest that the outreach of MFIs positively affects their financial performance. There is a significant impact of the share of equity in total assets, staff productivity and the percentage of female clients on MFIs' financial performance. However, the 2008 crisis has prompted an important consolidation for some MFIs.

Ndiouma Ndour (University of Assane Seck, Senegal) and Eric Paget-Blanc (University of Evry, France) focus on the quality of the loan portfolio of 320 MFIs branches in Senegal over the period 1980-2010. They use VAR models and impulse functions to assess the effect of the increase in non-performing loans on financial and social performance; they specify appropriate repayment policies addressing deterioration in loan portfolios. The significant influence of financial variables as opposed to social variables indicates that the financial issue remains decisive for the credit-risk management policy of MFIs in Senegal.

Joseph Nzongang, Léopold Djoutsa Wamba and Alain Takoudjou Nimpa (all three from University of Dschang, Cameroon) provide an in-depth case study of the Financial Cooperative of African Women (MUFFA) in Cameroon. They carry out a logistic regression analysis upon 603 loans granted to members in March 2013, in order to identifying the determinants of loan delinquency rates in this MFI. Factors related to the borrower (including availability of additional income) and to the lending institution (credit amount, duration and loan officer visit during the repayment period) affect the default rate in this MFI.

Sandrine Kablan (University Paris-Est Créteil, France) assesses MFIs efficiency in WAEMU from 2002 to 2006; she inquires whether reforms that occurred in the microfinance industry have favoured sustainability or outreach. Using the stochastic frontier analysis to measure MFIs financial efficiency and data envelopment analysis to gauge socio-financial efficiency, outcomes show an increase in the former at the expense of the latter. The negative impact of outreach variables upon the risk and profit of MFIs explains this trade-off, whereas the capital ratio and sound financial management have a positive impact. MFIs specificities such as their size and training to their clients have a negative impact, while subsidies have a positive impact.

Lucie Fotsa Lieno (University of Rouen, France) documents so-called mesofinance activities upon 26 MFIs from 16 Sub Saharan Africa countries between 2008 and 2012. She uses an ordered probit model to capture the characteristics of these MFIs, ranging from mesofinance programs to ultimate beneficiaries and distinguishing small business loans patterns from loans granted for social inclusion. Panel data regression reveals that MFIs become involved in mesofinance according to their funding source or legal status.

Moustapha Aman (University Paris-Est Créteil, France), Nikolay Nenovsky (University of Picardie, France) and Ismaël Mahamoud (University of Djibouti, Djibouti) investigate the link between the *Currency Board* monetary regime and informal money transfers (*hawalas*) in Djibouti. They use monetary accounting and econometric simulations; particularly from different tests for cointegration of the balance of payments, reserve money and *hawala* transfers over the period 2002-2011: informal practices develop in harmony with the highly rigid monetary regime. The interaction of formal and informal sector provides a macro-monetary balance and stability, thereby perpetuating the *Currency Board* regime.

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