Chapter 26
Analysis of the Performance of Microfinance Institutions in Sub-Saharan Africa:
Observations and Perspectives

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ABSTRACT

This chapter examines the performance of microfinance institutions in Sub-Saharan Africa through observations from different perspectives. It examined the effects of microfinance institutions in Sub-Saharan Africa. Relevant literature on the sustainability and outreach of microfinance institutions are also analysed in this chapter. Sub-Saharan Africa's future achievement of necessary economic growth is very likely to depend partly on its ability to develop its economic and financial sectors to be more inclusive of small and medium enterprises in a more comprehensive way. Currently, microfinance directly promotes the development of the intermediate financial sector in Africa, which is positively correlated with economic growth. Despite the worsening of the current industrial crisis, microfinance is seen as an essential developmental tool and continues to grow in Sub-Saharan Africa.

INTRODUCTION

Microfinance institutions are seen as a bridge between the financial and banking sectors, especially in post-conflict African countries. Some Sub-Saharan countries are developing MFIs for traditional bank loans due to their positive impact on economic growth. Compared with research on conventional banks, research on improving the growth rate of microfinance institutions has made significant progress.

The importance of microfinance and of MFIs is that microfinance is becoming recognised as one of the most effective tools for reducing poverty in developing economies. Matin et al. (2002) highlighted that MFIs, often major foreign institutions, are present in Sub-Saharan African countries, providing small

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direct personal loans to customers like villagers, small entrepreneurs, poor women, and low-income families. MFIs may seem like traditional banks. However, MFIs operate differently from banks, particularly when they are registered as mutual funds, non-profits, or cooperatives. These institutions carry out a similar business type and have lower capital requirements for expanding small businesses. Many MFIs are very popular, operate well, and have an excellent record of success, and many are operational and self-sufficient.

The role of microfinance in economic development has been to bring about financial inclusion in the economy to millions of rural families and women of economically marginalised groups. Ledgerwood and White (2006) stated that the purposes of microfinance are to improve the lives of the poor (and those close to the poverty line), to improve healthcare, to improve housing, and to encourage the creation of small and medium enterprises, which should be undertaken in Sub-Saharan Africa to promote economic development and raise funds for marginalised groups. According to Felsenthal (2010), approximately two million people around the world do not have access to financial services. The World Bank Group, with 189 member countries, is committed to combatting poverty in all its dimensions, reducing poverty, and building shared prosperity in developing economies like those in Sub-Saharan Africa. Another purpose of MFIs is to provide necessary financial services to poor and low-income families, entrepreneurs, and early-stage businesses who cannot otherwise access these services. MFIs also make small loans to people who cannot otherwise get credit. This chapter therefore aims to analyse the outreach performance of microfinance institutions (MFIs) in their provision of significant services for the poor using innovative lending techniques within controlled environments.

BACKGROUND

Microfinance refers to mid-term, emergency, and individual loan products designed to meet the low-income group's very diverse personal needs, such as fixed loans and group guarantees (Saba, 2021). MFIs are, as their name suggests, bankers and financial institutions that provide microfinance services to the poor. Microfinance was founded in 1970 by the Bangladeshi economist Muhammad Yunus, who is often referred to as the 'poor banker'. Yunus established the Grameen Bank in Bangladesh in 1976 to provide 'microloans' (Engler, 2009). At the time, microfinance was about expanding loan services to small business owners. Beforehand, banks generally only made loans to middle-class, high-net-worth clients. Yunus's concept of microfinance quickly spread in the microcredit sector in Bangladesh. It became very popular, leading to the establishment of similar microfinance organisations around the world, and it eventually became what is today's microfinance (Yunus, 2008). Yunus won the 2006 Nobel Peace Prize for his efforts. Indeed, while jointly granting Yunus and his bank the prize, the Nobel Committee also paid tribute to Yunus and his bank for their 'bottom-up efforts to create socio-economic development' – fast. In other words, the committee saluted Yunus's philosophy of creating financial opportunities for people in need.

According to Neumann (2012), microfinance enhances the capabilities of the poor by providing funds to entrepreneurs and small businesses who cannot otherwise obtain traditional business financing due to their limited financial resources, financial status, or credit history. It refers to the credit practice of doing so. Small traditional or professional credit provided by banks and cooperatives is an alternative to other informal sources of credit, such as loans provided by community members or small business owners.