Review of: "Factors Affecting the Social Outreach of Microfinance Institutions: Evidence from Ethiopian Microfinance Institutions"

Omar Neme Castillo[1]

1 Instituto Politécnico Nacional

Potential competing interests: No potential competing interests to declare.

The document addresses an interesting and relevant topic, although with certain limitations.

In general, it seems to ignore central ideas for a deeper understanding of the text, which limits the scope of the document.

Specific observations are:

It does not indicate the period of analysis.

He raises hypotheses, after reviewing other studies, with mixed or inconclusive evidence, but the author does not justify why he expects a certain sense of the relationship analyzed.

It describes, theoretically or empirically, relationships between variables; however, in some cases, these relationships are not clearly explained (e.g., ROA and outreach).

Based on empirical evidence, all hypotheses - and variables - appear not to have a linear effect. That is, it is possible to expect an inverted U-type relationship.

It is necessary to incorporate more current references.

In the hypotheses, particularly in H3, he speaks of relationships that, however, can be in both directions. It seems that the focus is more on the "effect" and not the "relationship".

In H4, the focus is partially limited. In a poor economy, with several market failures in the financial sector, including information asymmetries that can lead to mistrust, potential borrowers may require greater attention (service) time from MFIs to close a deal. This can translate into higher operating costs. The indicator considered seems to leave this aspect aside.

Regarding PAR, MFIs borrowers are considered of high risk -mainly by traditional banks- since in general they do not have real collateral. How is this issue considered in the analysis?

Even more, the quality of the portfolio and the risk depend, among other aspects, on the type of business undertaken with the loans from the MFIs. Do these ventures tend to generate cash flows to guarantee liquidity and solvency?

Is there a correlation between PAR and ROA?

(p.8) There could be a trade-off between economies of scale and the democratization of credit (efficiency gains due to greater correspondence with specific needs that can be detected and addressed at the local level - perhaps through branches or small MFIs-).

(p.9) Are there legal restrictions or regulations about the level of deposits that MFIs have to maintain?

What type of statistical/econometric methodology is used?

A more precise and clear definition is required for each variable. For example, what is an active borrower?

For a better understanding, the values must be expressed in USD terms.

For a comparative approach, what is the average loan per borrower of non-MFIs in Ethiopia?

(p.15) What about multicollinearity?

(p.15, paragraph 2) What does that mean? Is it economically adequate?

(p.15, paragraph 3) Which models? How important is R2 in a panel data model?

(p.16, paragraph 1) Coefficient of determination?

As written, the conclusions are confusing, with limited relevance and scope.

Regarding the recommendations, what would be a slightly more specific recommendation?

What is the added value of the document?

Are the hypotheses accepted or rejected?

A deeper level of analysis and discussion is needed.