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Which types of microfinance institutions decentralize the loan approval process?

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Highlights

- We identify microfinance institutions characteristics that affect the choice of a decentralized loan approval process and link loan officer authority to MFIs outreach.
- MFIs size, cooperative status, and solidarity lending affect the likelihood of choosing a decentralized loan approval process.
- Allocating the decision-making authority to the loan officer improves MFIs' breadth of outreach (the number of active borrowers).
- Allocating the decision-making authority does not affect the size of the loan portfolio and does not deteriorate MFIs' loan portfolio quality.

Abstract: Which characteristics of microfinance institutions affect the choice of a decentralized loan approval process? That is the main question this article attempts to answer. A second concern is whether the choice of allocating the loan approval decision to the loan officer enables a microfinance institution to expand its number of loans and improve its loan portfolio quality after controlling for the endogeneity of the choice of decentralizing the loan approval. To achieve this goal, we study an independently pooled cross-section sample of 362 assessment reports for 267 MFIs from 2001 to 2012 across 67 countries. Results suggest that size, cooperative status, and solidarity lending are MFI-level variables that affect the likelihood of choosing a decentralized loan approval process. Allocating the decision-making authority to the loan officer improves MFIs' breadth of outreach (the number of active borrowers) but does not affect the size of the loan portfolio and does not deteriorate their loan portfolio quality.

Keywords: decentralization, loan officer, loan approval, legal status, microfinance

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