

Abstract

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Performance of Microfinance Institutions

Microfinance is regarded as a financial development tool used in fighting poverty by providing the poor with financial services such as microloans, savings, insurance and money transfers thereby gradually lifting them out of poverty. Improving the performance of Microfinance Institutions (MFIs) makes them more capable of better serving more poor people, contributing to the development and enhancement of their economies and improving the welfare of the poor. It is therefore of great importance to study the performance of MFIs from different aspects in order to understand how they operate, what causes their success/failure, and try to find ways to enhance MFI performance to get the most possible benefit out of them. This thesis consists of three interconnected studies, each of which addresses the performance of MFIs from a different aspect. The first study examines the effect of the external environment on MFI performance worldwide in order to identify the context that is best suitable for MFI success, with a special emphasis on the MENA region. The second study investigates the causal relationship between microfinance and formal banking sector development in order to help improve the performance of MFIs with the possible help of the banking sector. The third study tests whether a trade-off exists between the two most pursued goals by MFIs: profitability and outreach in order to help MFIs find a way to achieve both goals simultaneously. A balanced panel dataset of 124 MFIs from 45 countries worldwide for the period 2004-2011 is used in conducting the three studies by applying multiple linear regression models and PVAR model using GMM. Results reveal that the external environment surrounding an MFI significantly influences MFI performance which helps in explaining the uneven performance of MFIs worldwide. It is also concluded that MFIs in the MENA region are the most profitable on average compared to MFIs in other regions which is mainly driven by GDP per capita, whereas South Asian MFIs tend to outperform MFIs in the MENA region when it comes to outreach. Additionally, it is concluded that MFI sustainability and banking sector development do not Granger cause each other, but MFI outreach tends to Granger cause formal banking sector development. Finally, no evidence of trade-off between MFI profitability and outreach is found except when the effect of profitability on outreach is disaggregated by MFI type.