Nurmakhanova, Mira; KIMEP University
miranur@kimep.kz
Authors: Mira Nurmakhanova, KIMEP University, Kazakhstan
Gavin Kretzschmar, EADA, Spain
Title: The Effect of Regulation on Performance of Microfinance Institutions

Microfinance Institutions (MFIs) offer banking services to poor customers who have no access to the traditional financial sector. Recently, developments in the microfinance industry have increased focus on financial sustainability and efficiency of MFIs therefore shifting focus from their social mission (outreach). Previous studies that examine the factors affecting both financial sustainability and outreach of MFIs consider these two challenges for MFI without taking into account the possible link between them. On this basis we propose a model which views both ‘outreach’ and ‘financial sustainability’ as being endogenous. We also explore the impact of regulation on MFI’s performance. Our results show that focusing on financial sustainability does not necessarily hurt the depth and breadth of outreach. As for the effect of regulation on MFIs performance, our results show that regulation might improve the financial performance of MFIs while decreasing its outreach. Additionally, following questions are of primary interest when evaluating the impact of regulation: (1) what is the effect of regulation on performance of actually regulated MFI? and (2) what is the effect of regulation on performance of MFIs that opt for regulation once they start taking deposits? In a new contribution to existing literature, our results show that the impacts of regulation on performance of actually regulated MFIs and MFIs that opt for regulation once they start taking deposits are different from the effect of regulation on randomly chosen MFI. For regulated MFIs the impact of regulation on financial performance is negative and is positive for those MFIs which become regulated once they start accepting deposits from clients. Thus, any policy with the intent of keeping MFIs regulated to improve their financial performance is perhaps questionable while any intervention with the intent of making MFIs regulated once they start accepting deposits from clients is financially feasible.