What determines the financial performance of microfinance institutions in Bangladesh? A panel data analysis

Shamima Nasrin, Rajah Rasiah, Angathevar Baskaran & Muhammad Mehedi Masud

Quality & Quantity
International Journal of Methodology
ISSN 0033-5177
Volume 52
Number 3

Qual Quant (2018) 52:1409-1422
DOI 10.1007/s11135-017-0528-1
Your article is protected by copyright and all rights are held exclusively by Springer Science+Business Media B.V.. This e-offprint is for personal use only and shall not be self-archived in electronic repositories. If you wish to self-archive your article, please use the accepted manuscript version for posting on your own website. You may further deposit the accepted manuscript version in any repository, provided it is only made publicly available 12 months after official publication or later and provided acknowledgement is given to the original source of publication and a link is inserted to the published article on Springer's website. The link must be accompanied by the following text: "The final publication is available at link.springer.com".
What determines the financial performance of microfinance institutions in Bangladesh? A panel data analysis

Shamima Nasrin¹ · Rajah Rasiah¹ · Angathevar Baskaran¹ · Muhammad Mehedi Masud¹

Published online: 23 June 2017 © Springer Science+Business Media B.V. 2017

Abstract While there is considerable expansion of microfinance institutions (MFIs) in the developing countries, there is a paucity of literature that examines the determinants of their Financial Performance (FP) among the Least Developed Countries (LDCs). This article seeks to investigate the determinants of FP of MFIs in Bangladesh over the period 2007–2013. Using two different measures of financial performance (portfolio yield and profit margin), the results indicate that the depth and breadth of social outreach can improve FP of MFIs. In particular, targeting women borrowers, increasing the average loan per borrower and increasing the number of active borrowers can contribute significantly to enhance the FP of MFIs. The results also show that, increasing savings and reducing operating expense can also contribute to increase MFIs’s financial performance.

Keywords Microfinance institutions · Social outreach · Women borrowers · Financial performance · Bangladesh

1 Introduction

Microfinance is a blessing to the poor as it provides them with financial alternatives to facilitate access credits which would not otherwise be available to them (Nasrin et al. 2016). Through microcredit, the poor are able to set up productive activities that can