

THE INFLUENCE OF CAPITAL STRUCTURE ON FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS

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Abstract

This paper aims to investigate the influence of capital structure on the financial performance of microfinance institutions (MFIs) using a sample of 89 institutions from 35 countries using the data provided by the MIX Market platform for the year 2015.

In order to do that, the paper focus on two main objectives: the first one is to evaluate the financial performance of microfinance institutions using a synthetic measure-composite index based on principal component analysis using several financial indicators and the second one is to assess the impact of capital structure on the MFIs financial performance composite index using regression techniques, taking into account three proxies for capital structure(capital to asset ratio, debt to equity ratio, deposits to total assets) and controlling for a variety of MFI-specific variables.

The empirical results pointed out two important factors for the financial performance of MFIs: profit margin and yield on gross loan portfolio. Based on the results of the composite index, Mexico, Azerbaijan, Bolivia, Nepal, Romania, Moldova, Egypt, Armenia and Bolivia are considered to be poles of microfinance performance. In Romania, the best performances were recorded by Express Finance, while at the opposite side there are OMRO and Pro-Credit, which performed poorly.

Analysing the influence of capital structure on the financial performance of MFIs, a significant and positive impact have been highlighted by the capital to asset ratio, while for the other two proxies any influence has been refuted. Therefore, a higher ratio of capital to total assets is positively associated with a higher MFIs financial performance.

Keywords: microfinance institutions, capital structure, financial performance, principal component analysis, regression analysis

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