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Chair of Banking

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Master thesis

**THE LEFT-HAND PRESIDENT'S REGULATION IN BOLIVIA: ITS IMPACT ON
MICROFINANCE PERFORMANCE AND OUTREACH**

The effect of competition among microfinance service providers on financial
inclusion

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EXECUTIVE SUMMARY

The microfinance sector has rapidly evolved in the past decades leading to a raise in number of microcredit lenders. The increased competition among microcredit providers may have deviated the social goal of microfinance institutions which is to promote credit access for the poor. In fact, the entrance of new competitors may influence the microfinance outreach.

According to previous research the effect of competition on microfinance outreach is ambiguous. Some authors find a positive effect due to innovation, and other papers find that competition leads to lower the lending standards. Therefore, this master thesis aims at studying the effect of increased competition on microfinance outreach with the purpose to complement the previous research. The analysis uses a differences-in-differences approach in order to investigate the plausible differentials between periods of low and high competition.

This study shows that competition among microcredit lenders plays an important role in microfinance outreach. Using a dataset from the Bolivian Credit Registry containing information about credit transactions of the financial system, it is found that there is a positive but not significant difference in terms of breadth of microfinance outreach when a competition shift occurs. This result signifies that the entrance of new microcredit providers impacts positively the number of borrowers and thereby, the extent of microfinance institutions.

Moreover, even though the differential is not significant, a competition shift has a positive effect on the depth of microfinance outreach. This means that the entrance of new microcredit lenders increases the size of the contract amounts, which may indicate that increased competition leads to richer clients.

In brief, microfinance institutions play an important role in regard to enhance financial inclusion and therefore improving the microcredit sector is crucial to ameliorate the lives of the low-income population.