Closing Non-Bank Microfinance Sector: Does It Make Any Impact?

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Extended Abstract

Microfinance was first introduced in 1970s with a noble intention of providing small loans to low income households and individuals in support of their private entrepreneurship and thus escaping from poverty. After global recognition, the microfinance model was adopted in various forms (i.e. classical Grameen type group liability, SME finance, individual etc.) in various countries (Bauchet et al. 2011). While in some countries, microfinance has demonstrated rapid expansion and sustainable growth (i.e. Bangladesh, India, Latin America, South Asia countries) in other countries – unfortunately it lead to a failure and sad experience of closing microfinance institutions (MFIs) - India, Bosnia and Herzegovina (Mujkovic, 2010; Marconi & Mosely, 2005).

Measuring the effect of introducing a new microfinance institution on business and household indicators has been given substantial attention in microfinance literature. In contrast, almost nothing is known on the reverse effect, i.e. what would happen in case of withdrawal of microfinance institution or even the entire sector. To the best of our knowledge, there are only two studies that analyzed this effect and both are from India (Banerjee et al, 2015; Breza & Kinnan, 2015) and predominantly in India, the original ground field for microfinance experiments. Measuring the consequences and impact of closing microfinance sector conveys a very important policy agenda as the loss of closing MFIs could be devastating as opposed to positive effects of introducing a new MFI.

In this paper we aim to provide a novel contribution to the literature by characterizing the effect of closing the entire non-bank microfinance sector in Uzbekistan, Central Asia, which took place in 2011. More specifically, in October 2011, the Central Bank of Uzbekistan revoked the license of all Credit Unions (121), and some of 34 Microcredit Organizations in the country. Before that date, the non-bank microfinance sector had been playing an important role in financial sector development as demonstrated by Alimukhamedova (2014a). Households and business representatives were actively taking microcredit loans that were proven to increase business size and household consumption patterns (see Alimukhamedova et al, 2017). We thus benefit from a so-called natural-type experiment setting and an exogenous variation in the supply side of microcredit provision.

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It should be stressed that evidence from Uzbekistan is expected to provide important lessons for other developing countries. The microfinance sector in the country evolved in a private commercial form, thus corresponding to a so-called “meso-finance” or small and medium size (SME) finance models that became the focus of advocates in microfinance that criticize the classical pro-poor Grameen type group lending methodology. Given that the effect of the sector closure could have various socio-economic outcomes, we base our methodology on multidimensional approach for impact assessment. More important to correctly assess the consequences of sector closure we aim to assess the effect (a) the level of financial sector and the effect on the market (b) borrowing and savings patterns, local institutions and (c) household level identifying the profile of those who is being hurt and by how much. Given the lack of similar studies we also aim to provide qualitative research and economic reasoning of factors that lead to sector closure.

The paper is further structured as follows: Section 2 provides the review of related studies including theoretical predictions and empirical evidence. Section 3 defines specific research question and objectives. Section 3 provides brief overview of microfinance sector in Uzbekistan, and main factors of closing non-bank microfinance institutions. Section 4 defines methodology, overall conceptual framework of impact study and multi-dimensional approach. Section 5 provides overview of two rounds of household survey data: in 2011 before sector closure and 2015 afterwards. Section 6 presents methodology on assessing impact of sector closure on households. Section 7 provides preliminary results and discussion. Last section concludes.

Bibliography


