Chapter 4
Business Management Models of Microfinance Institutions (MFIs) in Africa:
A Study into Their Enabling Environments

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ABSTRACT

In this study, the authors analyse the socioeconomic, political and geographic conditions that are conducive of cooperative microfinance initiatives in comparison with other organizational forms in Africa. They distinguish three types of institutions (MFIs) and business models: cooperatives/credit unions, non-profit or non-governmental (NGOs and commercial banks). To analyse the enabling environment for the three business models three types of factors are distinguished: macroeconomic policy, institutional, and geographical. Multinomial logistic regression is applied to investigate the impact of these external conditions. The authors use data on 1790 MFIs in selected African countries (MIX Market) and global socioeconomic data of these countries. Their findings reveal that irrespective geographic location, co-operatives feature in countries with civil law systems, low inflation rates and high levels of economic growth. Commercial MFIs (banks) feature particularly in the countries with common law legal systems. NGO type MFIs are associated with high inflation rates and low levels of economic growth.

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1. INTRODUCTION

Microfinance is since long regarded as a promising approach for reducing poverty in developing countries. Microfinance provides financial services in limited amounts to low-income clients without collateral (Crijns, Lansbergen, and Pater, 2006). By allowing poor families to gain access to financial services this method is regarded to stimulate the overall economic development of these countries (Berger & Weber, 2006; Morduch, 2000).

Conflicts and poor governance in Sub-Saharan African countries (SSA) have resulted in stagnation or poor social-economic performance. Almost 43% of the population lives on less than 1.90 US$ per day and suffers from food insecurity (World Bank Group, 2016). Eradication of poverty in SSA is still one of the primary challenges for the international community (Annan, 2005).

Modern infrastructure, markets, institutions and services offered by the financial system is still lacking in Africa. Therefore, there it is generally believed that there is a big untapped market for microfinance development in this region. Whereas other authors have focused on determinants of ingredients for success of microfinance (Hermes, Lensink, & Meesters, 2008; Kuchler, 2011; Maksudova, 2010), in this study we analyze the contextual determinants of the incidence of different organizational forms of MFIs. Previous research shows that commercial companies providing microfinance services are not incompatible with the social mission of MFIs, irrespective of geographical location (Tchakoute-Tchuigoua, 2010). We use a similar approach, but also include the influence of policy factors and institutions. We hypothesize that a range of factors (economic policy, legal-institutional and geographic) determine the organizational form of MFIs. The objective of this study is to investigate the relationship of those factors with three elected forms of microfinance in African countries, with special reference to cooperative business management models.

In Section 2, we explore the relationship between microfinance models and the macro environment in which they operate. Section 3 presents hypotheses and selection of variables, followed by a statistical description of data and methodology in Sections 4 and 5. The results are discussed in Section 6 followed by summarized conclusions.

2. CONCEPTUAL FRAMEWORK

Microfinance differs from conventional finance as it provides financial services to low-income population[1] (CGAP, 2006). The success of microfinance varies considerably across countries (Morduch & Haley, 2002). Differences are mostly explained by the importance of the external contextual environment on institutional sustainability and efficiency (Ahlin, Lin, & Maio, 2011; Crabb, 2008; Cull & Morduch, 2007; Hartarska & Nadolnyak, 2007; Vanroose & D'Espallier, 2009).

Another stream of literature shows that institutional type of microcredit providers influences the differences in outreach and sustainability of the MFIs (Hartarska, Mersland, Nadolnyak, & Parmeter, 2013; Mersland & Strøm, 2008). The social and financial performance naturally result from the mission and vision of the MFIs.

We use a similar approach to Tchakoute-Tchuigoua (2010), who has explained the choice of MFI's organizational type (ownership) by their geographical location. An effort to relate the organizational type of MFIs with the environment was not further researched in microfinance literature. To fill this