Paper #2 - Microcredit Angola vs. Ghana

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for

Dr. Bunte - Spring 2019 PPPE 6368

The microfinance industry provides financial service access to poor families and microenterprises. In 1997 the International Financial Corporation (IFC) began a program of microfinance in Africa. Among the IFC's first target countries were Ghana and Angola (International Finance Corporation, n.d. p.3). Both countries have similar economic and social demographics (The World Factbook: Angola and Ghana, 2018). The difference in the amount of microfinancing credit extended within Ghana and Angola presents an interesting puzzle. As of 2017, Ghana has funded nearly 40 times more microcredit loans than Angola (The MIX: Angola and Ghana, n.d.). Therefore, my research question is: Why does Angola lag so far behind in the extension of microcredit loans as compared to Ghana. More generally, why are some countries better able to avail themselves of microcredit than other countries?

There is a large body of research that analyzes microcredit demand side issues. Concerns about the impact of high interest rates (Dehejua 2012) or the degree of borrower financial literacy (Fernandes & Netemeyer 2014). Other research focuses on lending techniques such a group lending (Cassar & Wydick 2010). This research is either conflicting or too individualized to be useful. Presented below are three explanations - two existing and one new - which might be useful in understanding the present question.

First Existing Explanation

A number of research articles look at the impact women have on microcredit development. It finds that when women are in leadership roles microcredit expands. For example, one study found that microfinance institutional performance improves when boards have a higher share of female members (Mori, et al. 2015). Similarly three other studies found that institutions with female CEOs or institutions otherwise managed by women performed better (Hartarska, et al. 2014), (Strøm, et al. 2014), (Boehe & Cruz 2013). Additionally, loans authorized by female loan officers have lower default rates (Hartarska et al. 2014). And finally, on the demand side, female clients of microfinance institutions lowered portfolio risk (D'Espallier, et al. 2011). While this may not be immediately intuitive, these studies demonstrate that women seem to be more financially astute. This financial acumen appears to directly translate into greater microcredit diffusion. Therefore, the greater role that women play in the microcredit market within a country may account for a relatively greater diffusion of microcredit.

Second Existing Explanation

A second type of explanation focuses on support institutions (e.g. government, laws, regulation). It is intuitive that "higher quality" lending laws will likely benefit shareholder-owned and regulated institutions. This was indeed found in one study which concluded that because of a stronger rule of law, relationship-based exchanges are less crucial thus allowing for greater microcredit lending (Barry & Tacneng 2014). Another study found that “good practice” in policy and regulation generally improved microfinance performance (McGuire 1999). Therefore, higher quality support institutions in the microcredit market within a country may account for a relatively greater diffusion of microcredit.

New Explanation

I propose a third, new, explanation for differences in the success of microcredit diffusion within a country. I argue that the level of conflict experienced within a country will have a negative impact on the demand for microcredit. I propose a causal relationship: High levels of conflict produce an environment where borrowers are less unwilling to transact; likely preferring established informal credit facilities. In addition, conflict may also make supply side operations more hazardous (e.g. community outreach becomes more dangerous) thus reducing the wiliness of microfinance institutions to enter the market. I hypothesize, therefore, that lower levels of country conflict will be positively correlated with microcredit loan production.

Summary

In summary, the three explanations being consider for examination are:

- In comparing two countries, those engaging women as lenders and borrowers will have higher levels or microcredit diffusion.
- In comparing two countries, higher quality support institutions in the microcredit market will have higher levels of microcredit diffusion.
- In comparing two countries, those with lower levels of conflict will have higher levels of microcredit diffusion.

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