

Transformation of Microfinance Institutions in Africa

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Abstract

We examine the factors driving non-governmental organisation microfinance institutions to convert to the commercial, profit-oriented model. Using data from the World Bank and the International Monetary Fund (IMF), we ran logit, probit, and multinomial logit models with NGOs as the base outcome. At the firm level, age, and size influence transformation whereas legal tradition, institutional quality, and stock market development are significant factors at the country level. Older firms are less likely to be NGOs, as are MFIs in civil law countries. Larger MFIs and MFIs located in countries with “other” legal traditions are more likely to be of the commercial model. Institutional quality raises the chances of conversion, while stock market capitalisation relates negatively with transformation. Overall, the models do better than null models, and the results remain robust to removing outliers and other checks.

KEY WORDS: Microfinance, Transformation, NGOs, Africa