Institutional Analysis to understand the growth of Microfinance Institutions in West African Economic and Monetary Union

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Abstract

The paper looks at why microfinance develops in some countries rather than others. To control for culture and for specific legal regulations, it takes a group of closely related countries in West Africa where eight countries (Benin, Burkina Faso, Côte d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo) are bound by a common Monetary and Economic Union and its Regulations, notably a common Microfinance law. The paper uses the similarities and differences of these eight countries to identify economic and institutional, economic factors which explain why Microfinance arrives sooner and develop faster in some environments than in others. We find that the success of Microfinance is linked to its economic performance, in terms of both levels of per capita income and growth, as well as regulatory and public governance, with the amount of remittances being received in a country and with life expectancy at birth.

Key Words: Institutional analysis, regulation, microfinance, West African Economic and Monetary Union, UEMAO

INTRODUCTION

Why does microfinance succeed in some poor countries like Bangladesh and Morocco and not in others like Afghanistan and Libya? Why does it arrive sooner in some countries rather than others? These are the kinds of questions which this paper is interested in solving.

These questions are especially important for Africa because it is the poorest continent.: according to World Bank WDI online data for 2007, the GDP per capita for sub-Saharan Africa is 951 USD compared with a world average of 7,995 USD and in terms of purchasing power parity, this is slightly higher at 1869 USD compared to a world average of 9947 USD (2009).

All African regions are not comparable and it is interesting to note that in the top 10 African MFIs by outreach (by number of savers or borrowers, as applicable), Kenya and Morocco have more than one each. However, even within this top sample, the inequalities between almost 6 million people reached by three MFIs in Kenya and only half a million by an MFI in Burkina Faso, indicates that some countries are more successful in introducing Microfinance than others.

The success varies so largely with culture that it is not possible to compare Asia with Latin America, for example. Even within Africa, cultural differences may be huge. Therefore, it would not be possible to transfer all the lessons from Kenya to West Africa, just as the Bangladesh model may not be totally appropriate to Kenya.

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