Do Microfinance Profits Converge? Evidence from a Dynamic Panel Analysis

Muriu, P

Date: 2013

Abstract

Microfinance competition has been transformed over the past two decades by forces such as regulation, increased commercialization, technological changes and competition from the formal banking sector. These developments have implications on Microfinance institutions (MFIs) profitability. This study examines the determinant, persistence and convergence of MFIs profitability in thirty two Africa economies, between 1997 and 2008, using a dynamic panel model. Estimation results shows evidence of persistence of excess profit from one year to the next. It is plausible that if there is a shock to profitability level in the current year, about 30% of the effect will persist into the following year. This finding is consistent with literature that considers persistence of profitability as a signal of barriers to competition reflecting either impediments to market competition or informational asymmetry. Government policies that prioritise MFIs stability over competition may therefore introduce new barriers to competition by insulating incumbent MFIs from rivalry. On average MFI profitability is higher for MFIs that are highly capitalised and efficient, but lower for MFIs with increased exposure to credit risk.