Mfis stand tall against cold winds by kathryn tully

Finance

An innovative working paper from the Stern School of Business at New York University has tried to demonstrate this for the first time. Basically, the idea of the authors is to compare micro-lenders with commercial banks operating in the same country. They assumed six key variables that would affect the performance of both micro-lenders and commercial banks. This includes the percentage change in their net operating income; return on equity; profit margin; percentage change in total assets; percentage change in loan portfolio; and the change in the portfolio at risk. The tentative conclusions, because of the limited available data on micro-lenders, suggest that micro-lenders are less correlated with equity indices than are commercial banks against one or more parameters. Micro-lenders are also far less correlated than are comparable commercial banks with domestic macro conditions. They indeed represent lower country risk than shares in banks.

" It's hard to separate the financial return from the social return of microfinance investing, but some of this data is very compelling." These are the words of Robert Weissenstein, a chief investment officer of private banking in the Americas for Credit Suisse, at e recent New York conference where the working paper was presented.

The study supports what has been suggested for some time: microcredit borrowers are operating in the informal sector, and so are less affected by shocks to the formal economy (Tully, 2007).

Managing director at Developing World Markets, Roger Frank cited the case of Argentina fostering an enormous growth in microfinance because people really had no alternative. Furthermore, during an economic crisis, people are likely to continue buying from small market vendors. MFIs also tend to offer shorter-term loans on much smaller amounts than commercial banks, with weekly or bi-weekly repayment plans. This results in lower default rates, in spite of the higher interest rates charged by MFIs (Tully, 2007).

Mr. Frank believed that MFIs are structurally inefficient markets. And as a result, the market is already getting crowded with commercial microfinance funds looking to invest their cash. On the other hand, Brad Swanson, partner at Developing World Markets, believed that commercial investment capital will aid the evolution of MFIs. He said that it could drive forward that industry, from reducing the marginal cost of capital to improving corporate governance and disclosure. However, it remains a tiny market. But maybe in the process, they will have helped the bonsai tree of poverty to grow a little. Much of the United States' trade is with less developed countries; thus granting credit is generally a necessary condition for doing business. And with the minimal capital available, there are several factors that make capital rationing perhaps the most important function financial managers and their staff must perform. Time should be considered. MFIs can provide entrepreneurs the capital when they needed. The payback period should be linked with the repayment scheme designed. Businesses assisted by the MFIs have shorter expected time to recover the investment because of the need to comply with the schedules of repayment (weekly or bi-weekly).