Lenders' Influence on Firm's Performance: Lessons from Microfinance Investment Vehicles' loans to Latin American MFIs

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Abstract

Using data from 62 Latin American Microfinance Institutions (MFIs), we study to what degree their financial and social performances are influenced by relationships with Microfinance Investment Vehicles (MIVs). We study the influence of MIVs from the perspective of lenders' governance by analyzing their incentive to influence MFIs' performance, the number of lenders present in the financing structure and the length of the lending relationships between MFIs and MIVs. Our results indicate that regardless of MFIs' size, MIVs have an overall negative influence on financial performance, resulting in lower ROA and OSS and higher cost of funds and nearly no influence on social performance. In a second step, we test whether these results are different between Tier 1, 2 and 3 MFIs and find that a relationship lending (only one lender) approach is beneficial to tier 2 and 3 MFIs but brings only negative effects to tier 1 MFIs. Conversely, a high number of MIVs pushes tier 1 MFIs to higher financial performance but at the detriment of reaching poor clients; while it clearly harms tier 2 and 3 MFIs' financial performance.

JEL: G11, G23, L2, O16, O17

Keywords: microfinance, lenders' governance, socially responsible investors, microfinance investment vehicles, social performance

[1] The author is thankful to MicroRate and especially Luis Viada and Akemi Kanashiro for having supported this research in many ways. First by providing the data used in the analysis, and then for their availability for discussion. This research would not have been possible without them. The author is also very grateful to Prof. Ariane Szafarz (Université Libre de Bruxelles) and Prof. Simon Cornée (Université Rennes I) for their detailed comments and suggestions on an earlier version of the paper.