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## Differentiated determinants of risk in portfolio at risk of the microfinance institutions in Mexico (2007-2012)

*Determinantes diferenciados de riesgo en la cartera en riesgo de las instituciones microfinancieras en México (2007-2012)*

Roberto Alejandro Ramírez Silva, Salvador Cruz Aké\*,  
Francisco Venegas Martínez

*Instituto Politécnico Nacional, México*

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### Abstract

This paper is aimed at examining the credit risk assumed by the Micro Finance Institutions (MFIs) through their sizes, margins and costs for a sample of 13 Mexican MFIs during the 2007-2012 period. We also study the differentiated effects of those risk factors on the MFIs credit risk through time and between MFIs by using quantile regression methodologies. We find that the use of the normality assumption on the traditional panel analysis biases the results when the studied variables are not normal by diluting the 0.75 percentile sample characteristics (the most heterogeneous part of the sample). Finally, by using quantile panel data with fixed effects, we find that for credit risk management the MFIs only consider the income they can attain.

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\* Corresponding author.

*E-mail address:* [salvador.ake22@gmail.com](mailto:salvador.ake22@gmail.com) (S. Cruz Aké)

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*Keywords:* Microfinance institutions; Panel data; Quantile regression; Credit risk

## Resumen

Esta investigación examina el riesgo de crédito que asumen las Instituciones Microfinancieras (IMFs) a través de sus tamaños, márgenes y costos para una muestra de 13 IMFs en México durante el período 2007-2012. También estudiamos los efectos diferenciados de estos factores de riesgo a través del tiempo y entre IMFs utilizando metodologías de regresión cuantílica. Se encuentra que la hipótesis de normalidad en el análisis tradicional sesga los resultados cuando las variables estudiadas no son normalmente distribuidas diluyendo el percentil 0.75 (la parte más heterogénea de la muestra). Por último, al utilizar un panel de datos cuantílico con efectos fijos se encuentra que las IMFs sólo tienen en cuenta para la gestión del riesgo de crédito el ingreso que pueden alcanzar.

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*Palabras clave:* Instituciones microfinancieras; Datos en panel; Regresión cuantílica; Riesgo crédito

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## Introduction

The Microfinance Institutions (MFIs) started their operations in Bangladesh and India at the beginning of the 70's with the idea of giving small short-term credits (less than 100 USD and until one year) to the poorest people without asking for collateral. In order to get the loan repaid, local reputation and group borrowing were used as a social pressure, for more details see (Consultative Group for Assistance to the Poorest, CGAP, 1996, and Roodman and Qureshi, 2006).

The Microfinance model used in Bangladesh and India was so successful<sup>1</sup> that it was imported to Latin America in the late 80's; mainly to Peru, Bolivia and Mexico. Originally, it was intended to diminish poverty and favor the social inclusion of the poorest; see, for instance, Armendaris and Morduch (2011), Olivares-Polanco (2005), and Weiss and Montgomery (2005). However, the capital donors were exhausted and competition changed the incentives of the lending process, so the MFIs faced the need of changing part of their lending methodologies by raising interest rates or going to new donors' rounds on a global financially constrained scenario; see, for instance, Morduch (1999), Cull et al. (2010), and Serrano-Cinca y Gutiérrez-Nieto (2014).

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<sup>1</sup> Grameen Bank in Bangladesh, has a repayment rate near to the 95% on late 1990's.

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