Mini Op-Ed: Plus Version

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Topic: [10]**

*The following mini op-ed is based on the articles listed in the References section below.*

# **Mini Op-Ed**

The implementation of new business ideas marks the start of the development process, which often require upfront capital that can be a challenge without sufficient funds or vice versa. Connecting these two groups with credit access facilitates development projects, but many developing countries struggle with weak enforcement, such as repayment issues, credit rationing, limited liability, and adverse selection, which pose significant challenges for lenders. Microfinance institutions (MFIs) have emerged as a solution to address the limited access to credit faced by low-income people in developing nations. To mitigate enforcement issues, MFIs use group lending schemes, which have proven to be effective in providing financial assistance to those who need it most. Group lending and social collateral help MFIs limit liability and resolve moral hazard and adverse selection issues. The article gives Ujjivan Small Finance Bank as an example of a successful MFI offering loans to low-income individuals and small businesses in India. Their success comes from serving a large potential market of people just above the poverty line and charging lower interest rates than money lenders. Ujjivan's success indicates positive prospects for the financial system amidst numerous challenges.

Despite the importance of credit access for economic progress, lenders may limit credit rationing from time to time, resulting in poor outcomes for borrowers and lenders. According to the article, Canadian banks may tighten their lending conditions due to their increased exposure to the US economy. This may result in some borrowers not being approved for loans or receiving less favourable loan terms. As a result, forcing home sales in the market if the economy weakens and unemployment increases, making mortgage payments more challenging. Therefore, making credit availability limited, leading to credit rationing. Credit rationing poses a negative impact on borrowers and lenders, since access to credit is essential to economic growth.

**Word Count:** [300]

# **References**

Small change. (2020, Feb 08). The Economist, 434, 70-71. Retrieved from http://proxy.lib.sfu.ca/login?url=https://www.proquest.com/magazines/small-change/docview/2352327191/se-2

MacMahon, M. (2023, March 22). U.S. bank disorder could lead to tighter Canadian lending conditions. CityNews. Retrieved from https://vancouver.citynews.ca/2023/03/22/canada-bank-lending-conditions/

# **Notes**

Tutorial notes:

I discussed how access to credit is important for the implementation of development projects, especially for start-ups that require upfront capital. How limited access to credit is a challenge faced by many developing countries due to weak enforcement mechanisms and other challenges.

The second point explains how microfinance institutions have emerged as a solution to limited access to credit. Group lending schemes and social collateral have helped MFIs address enforcement problems and limited liability, as well as adverse selection and moral hazard issues.

The third point provides an example of a successful MFI, Ujjivan Small Finance Bank, which offers loans to individuals and small businesses in India. They serve a large potential market of people just above the poverty line and charge lower interest rates than loan sharks.

The fourth point is how credit rationing can occur, leading to poor outcomes for both borrowers and lenders, and how Canadian banks may tighten their lending conditions, potentially resulting in forced home sales in the market if the economy weakens and unemployment increases. This highlights the negative impact of credit rationing on economic growth.