Financial policy for the poor: Financial inclusion and microdebt

by

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Microcredit crises

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1. Context

- Microfinance-microcredit: acclaimed as efficient tool to fight poverty

- Success: « high » repayment rates But rates have started to fall

- Apparently unlimited growth prospects, the number of poor clients is now on the decline.

- Microcredit crises: Bosnia, Nicarragua, India, Morocco, etc. since 2007
  - Over-indebtedness + rising defaults (>10%)
    → debt re-scheduling and cancellations
    → MFIs: under state supervision (niger & Cameroun) or failure (Morocco, Nicaragua)

- a number of countries are close to saturation: Cambodia, Mexico, Peru....
Mainly driven by Asia and Pacific (India and Bangladesh), (Morduch, 2017)
2. Questions

• Analyse the transformation and limitations of the microcredit industry and to critically reflect on its future.

• Is this the end of microcredit, or just a critical phase in its development?

• Are these crises due to mission drift, or should microcredit per se be considered a dead end?

• Should we put a stop to microcredit, or rethink how it is implemented?
3. Research project

• Funded by the European Investment bank

• Several case studies: India, Nicarragua, Morocco, Senegal, Dominican Republic (diversity of locations and models)

• Research conducted at different levels: supply, demand, environment

• Diversity of these crises: in terms of their severity and their specific features (systemic, maturity, or latent crises)

• We provide a conceptual framework based on a holistic and systemic understanding of microcredit crises
4. Results

- Governance-related factors and mission drifts
- Regulation-related factors
- Saturation effects
- Collective resistance practices
4. Results

• Governance-related factors and mission drift:
  
  • excessive competition,
  
  • inadequate enforcement mechanisms,
  
  • delivering credit without any analysis of customer creditworthiness or potential for success in the activity to be financed,
  
  • focusing on the highest-risk financial products, and mismanagement.
4. Results

• Regulation-related factors:
  
  • these include inadequate regulation,
  • political interference,
  • distortion due to government programmes.
4. Results

• Saturation effects

  • the inability of local economies to absorb external liquidities beyond a certain threshold,

  • or to support the creation of new income-generating activities, with the crises symptomatic of broader economic crisis.
4. Results

• Collective resistance practices

  • that can be interpreted as political messages to MFIs, the microcredit industry, or more generally to ‘authority’.

→ These various factors are strongly interrelated and mutually reinforcing. Most, if not necessarily all, delinquency crises stem from a combination of these factors.

→ Beyond these direct causes, whether crises break out – or not – depends on how the different parties concerned interact with one another, and whether they overreact or minimize the scale of the problem.
Natural disasters
Macro economic and political economy risks

Political situation
Excessive concentration
Inadequate regulation and supervision
Political Interference

Excess of funding
Hyper-concentration
Relations with competitors

Portfolio quality
Products relevance
Social and cultural legitimacy

Costs structure
Level of debt

Collecting procedures
Over-indebtedness

Inadequate management and governance

MFI CRISIS

Excessive growth

Excessive concentration

CLIENTS CRISIS

Absorbing capacity exceeded

Inadequate management and governance

COUNTY CRISIS

Bad public policies
Inadequate regulation and supervision
Political Interference

Competition development speed (too fast)

Uncertainty level

Over-indebtedness

Legend:
- To be coloured red in case of crises
- Explaining items
- Sparkling items
Universal financial Inclusion

• Diverging pathways
  • Savings-groups
  • G2P (bank accounts and plastic cards)
  • Mobile money
  • Graduation programs
  • Insurance
  • Remittances

❗

→ Be careful not to promote new paths towards wealth extraction
→ Not to promote new governing tools (poor behaviour)