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Financial policy for the poor: Financial inclusion and microdebt

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

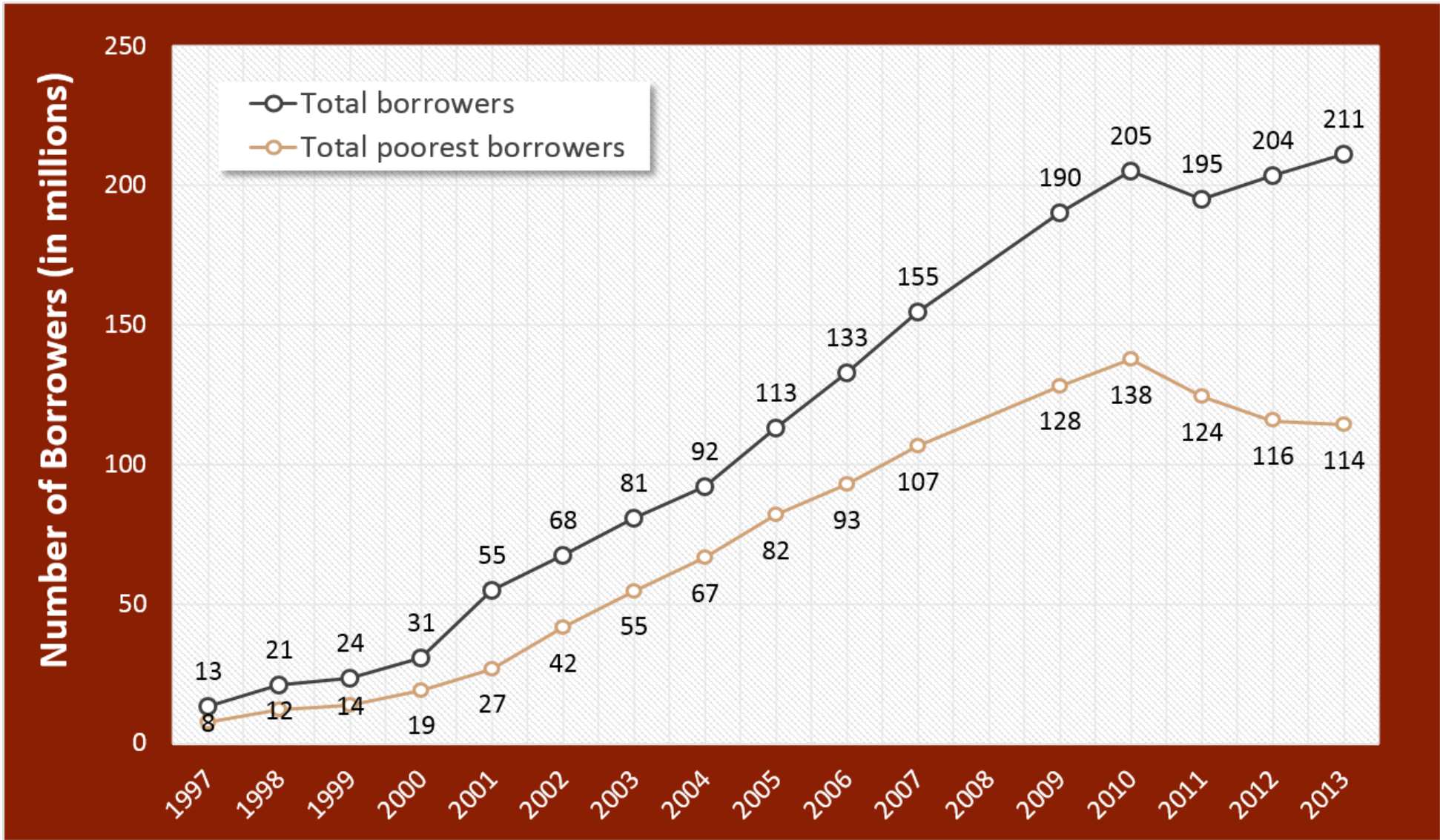
Microcredit crises

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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....



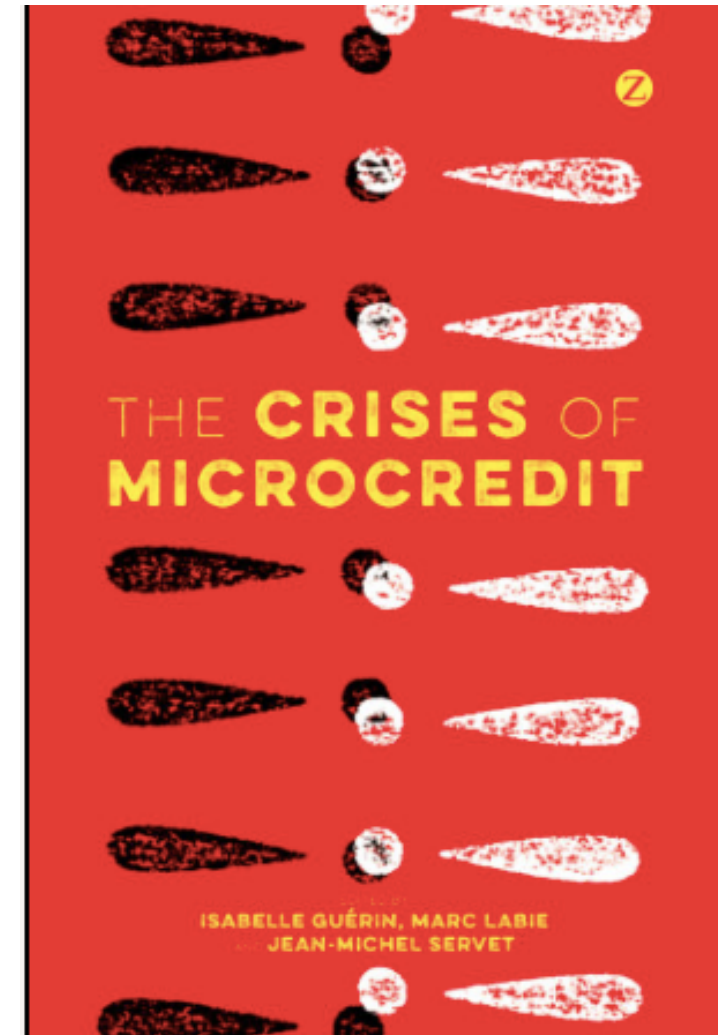
Mainly driven by Asia and Pacific (India and Bangladesh), (Morduch, 2017)

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

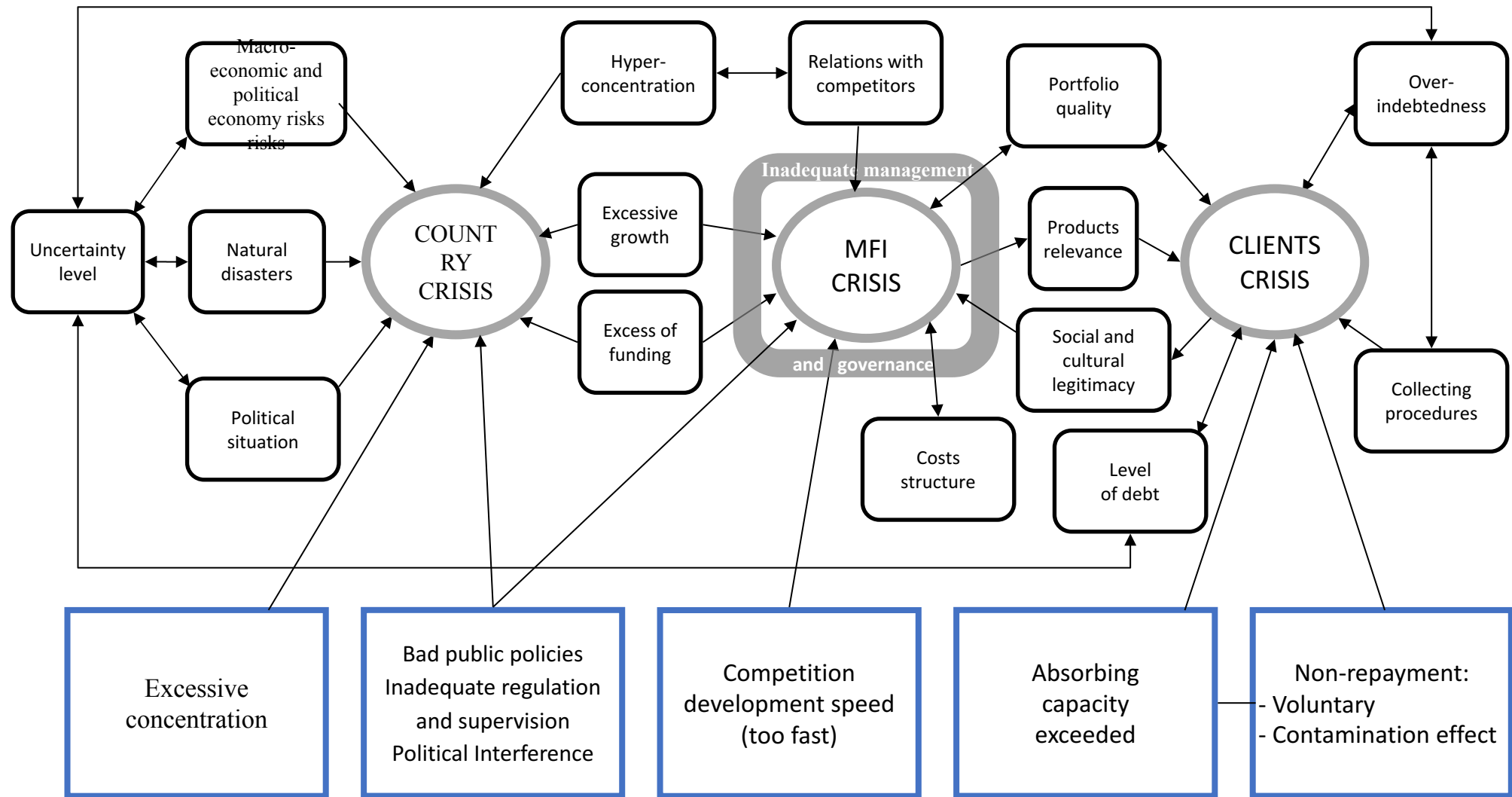
- Saturation effects
 - the inability of local economies to absorb external liquidities beyond a certain threshold,
 - or to support the creation of new income-generating activities, with the crises symptomatic of broader economic crisis.

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.



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)