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# Microfinance in a time of Crisis

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Global analysis of the main microcredit delinquency factors from **the three perspectives** :

- supply
- demand
- socioeconomic and political environment

A critical view on the **complexity** of microcredit market, **interactions** among factors,  
A **dynamical** analysis

*Field work in: Morocco, Dominican Republic, Tamil Nadu (India), Senegal, and Nicaragua  
April 2012-December 2015*

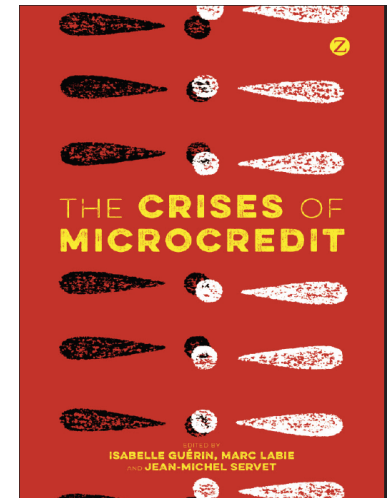
## Concept:

Actors' behaviours form a **complex system**

**Not resulting from the sum of its parts but originating in the interactions among them.**

Analyzing each part is not enough !

**Systemic analysis is needed to provide early warning**



## What is a crisis ??

- Systemics.... Andhra Pradesh...
- Maturity.... Morocco...
- Latent ... Dom Rep, Mexico...

Crises **originates** from choices at: demand, supply, or environment level  
they **develop** at: clients', MFIs' and/or country level

### **Demand:**

Characteristics of the products do not match the client's needs, potentials, norms and values  
good repayment is compatible with financial vulnerability

### **Supply:**

over-estimation of sustainable demand: high grow, wrong/aggressive behaviour

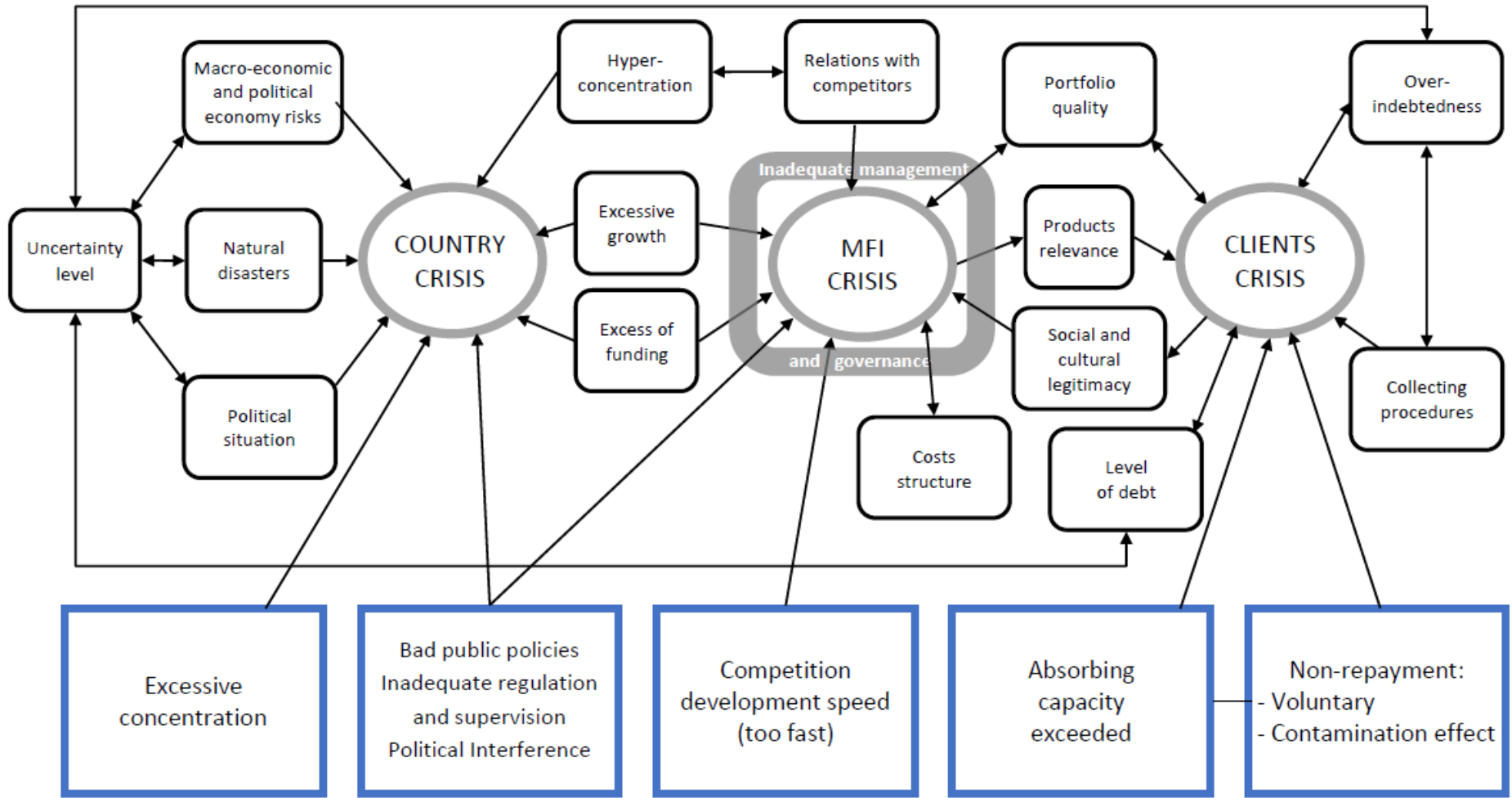
### **Environment:**

public policies, inadequate regulation and supervision, political and external pressures, over-concentration, ...  
determinant role of the environment

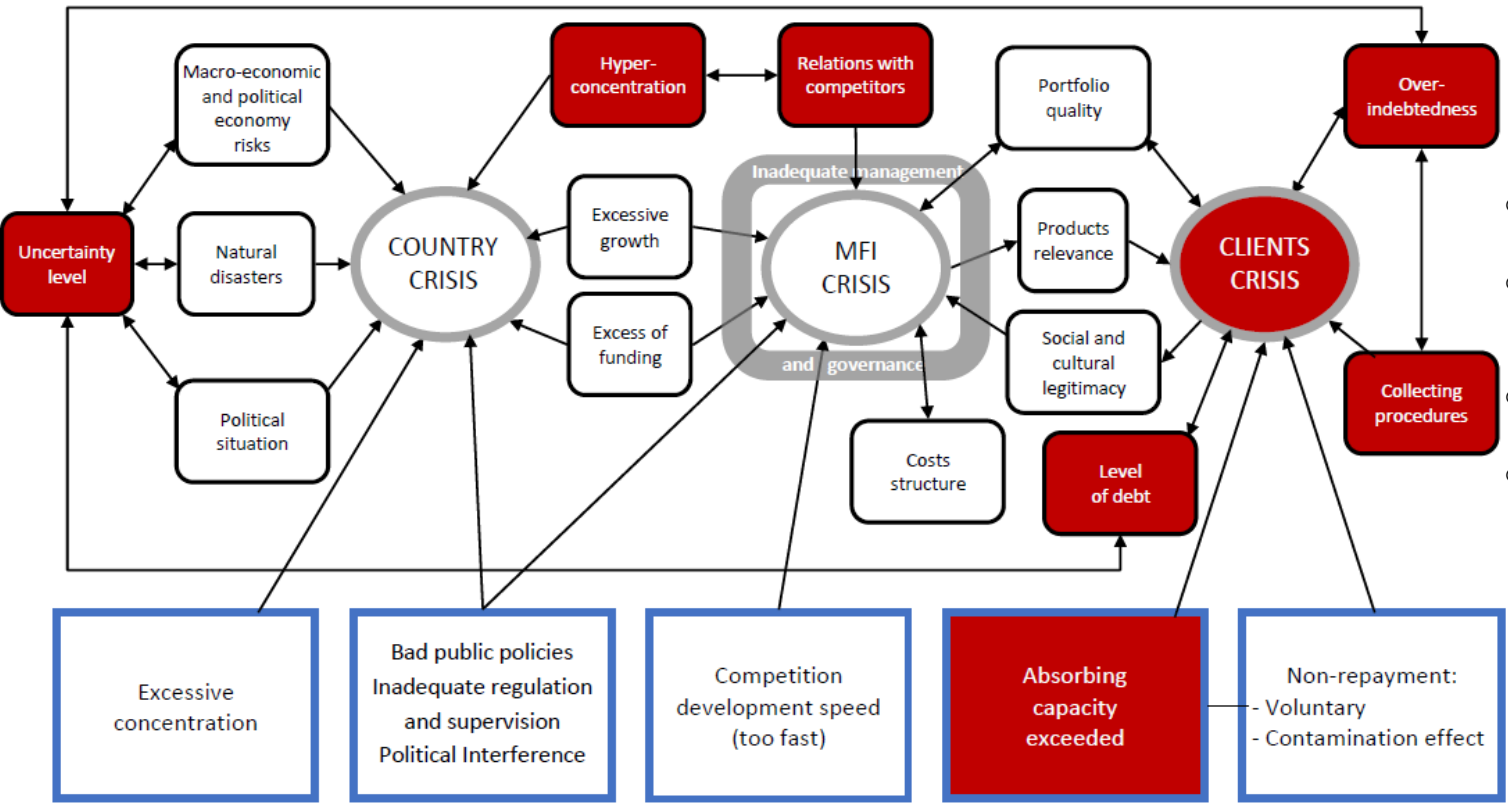
## ...towards Microcredit crises prevention dashboard...

	Demand	Supply		Environment
		Organisational aspects	Financial aspects	
At the client's level	<ul style="list-style-type: none"> <li>Total debt/repayment capacity</li> <li>Total capacity of borrowing saturated by a single lender</li> <li>Willingness to pay</li> </ul>	<ul style="list-style-type: none"> <li>Inadequacy of products and lending procedures</li> <li>Nature of enforcement procedures</li> </ul>	<ul style="list-style-type: none"> <li>Effective interest rate (including transaction costs)</li> </ul>	<ul style="list-style-type: none"> <li>Cultural and historical image of money and debt</li> <li>Clients vulnerability level (Incomes uncertainty and lack of social security)</li> </ul>
At the MFI's level	<p><b>Clients</b></p> <ul style="list-style-type: none"> <li>Multiple credits (and crossed portfolio)</li> <li>Turnover variation</li> <li>Drop-out variation</li> <li>Over-indebtedness</li> </ul> <p><b>Lack of social and cultural embeddedness and/or legitimacy of the MFI</b></p>	<p><b>Institution growth</b></p> <ul style="list-style-type: none"> <li>Employees: new/total number</li> <li>Agencies: new/total number</li> <li>Staff turnover</li> <li>Procedure for launching new products/services</li> <li>Inadequate MIS adaptation</li> </ul> <p><b>Staff management and Governance</b></p> <ul style="list-style-type: none"> <li>Incentives</li> <li>Control</li> <li>Leadership behaviours</li> <li>Mission fulfilment</li> <li>Multiplicity of governance mechanisms and Balance of powers</li> </ul>	<p><b>Portfolio quality</b></p> <ul style="list-style-type: none"> <li>PAR30 &amp; PAR90</li> <li>Write-offs</li> </ul> <p><b>Cost covering</b></p> <ul style="list-style-type: none"> <li>Funding costs</li> <li>Operational costs (including staff)</li> <li>Loan loss costs</li> </ul> <p><b>Liquidity Mismanagement (of the institution)</b></p> <p><b>Funders, Owners and Investors inadequate pressure</b></p>	<p><b>Macroeconomic risks</b></p> <ul style="list-style-type: none"> <li>Foreign exchange (FX) risk (if exposed to foreign funding)</li> <li>Inflation</li> <li>Specific Political Economy issues (for a sector, a region, ...)</li> </ul> <p><b>Judicial procedures efficiency</b></p> <p><b>Interaction with informal lenders</b> Segmentation? Coordination? Competition?</p>
At the country's level	<ul style="list-style-type: none"> <li>Consumer credit stimulation and practices</li> <li>Unexpected changes in money transfers (remittances)</li> <li>Overexposure to a limited number of clients economic activities</li> <li>Microfinance reputation</li> </ul>	<p><b>Market growth</b></p> <ul style="list-style-type: none"> <li>Market growth rate</li> </ul> <p><b>Nature of the market</b></p> <ul style="list-style-type: none"> <li>Concentration of supply (clients)</li> <li>Concentration of supply (products)</li> <li>Geographical concentration</li> </ul>	<p><b>Available financing</b></p> <ul style="list-style-type: none"> <li>Amount</li> <li>Origin</li> </ul>	<p><b>Competition</b></p> <ul style="list-style-type: none"> <li>Intensity</li> <li>Origin</li> </ul> <p><b>Macroeconomic framework</b></p> <ul style="list-style-type: none"> <li>Regulation framework</li> <li>Quality of supervision</li> <li>Credit bureau</li> <li>Political risk</li> <li>Country risks (natural disaster, economic crises, ...)</li> </ul>

## Systemic approach of microcredit crises



# an Example: The Dominican Republic



## Explaining items:

- High level for debt
- Coercive collection procedures
- Clients over-indebted
- Concentrated supply and unfair competitive practices

Legend: ○ To be coloured red in case of crises    ◻ Explaining items    ◻ Sparkling items

□ How long?

➤ Green indicators at the supply level but a contrasted picture at clients level (*saturated areas*)