

Microfinance Institutions' Responsibilities in Microcredit Crises: Management Matters!

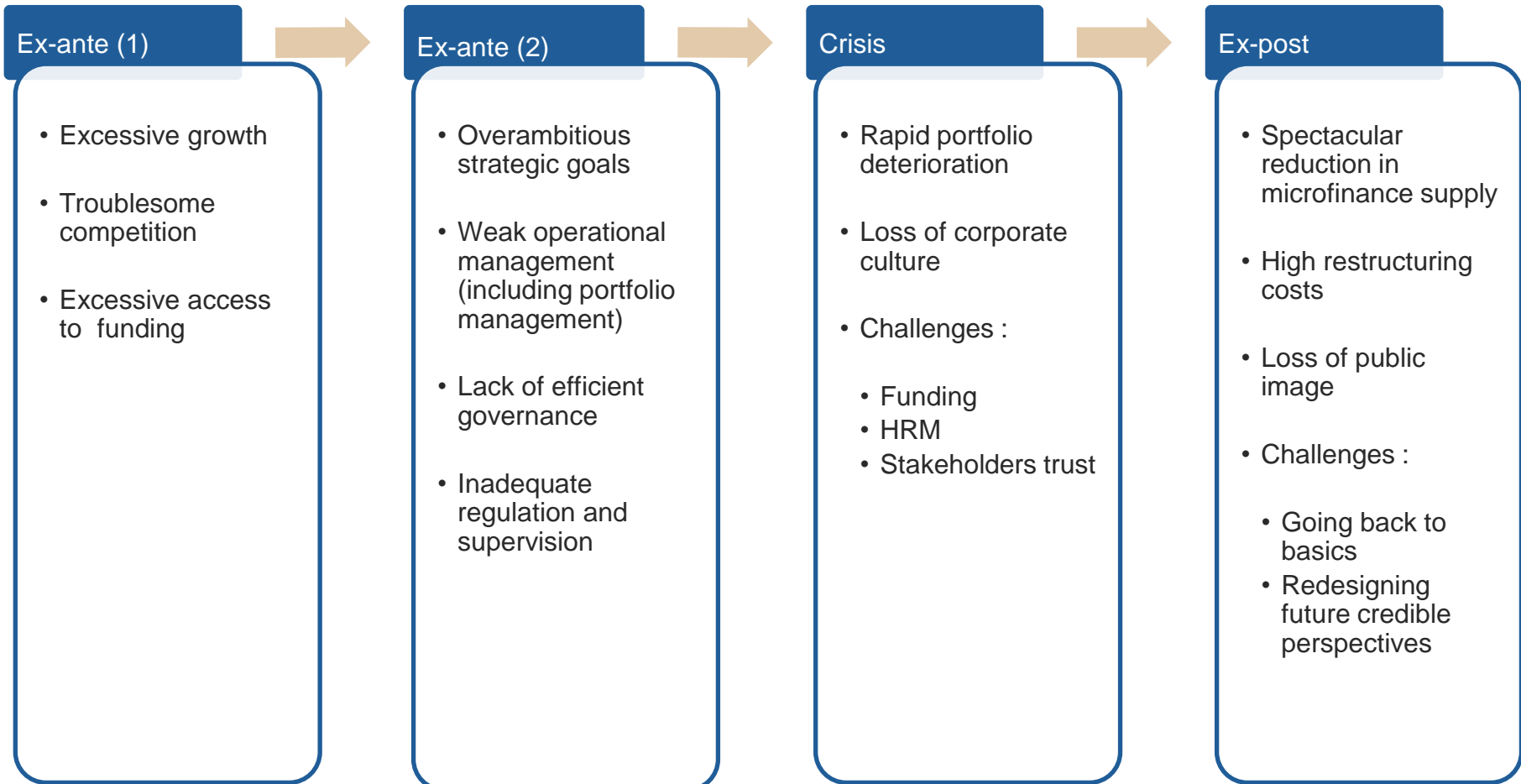
EIBURS Project "Financial Inclusion in Crisis" -
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A typical crisis path...



(Too) strong growth: the KEY issue, but... How much is too much?

		Morocco	Peers	Bosnia	Peers	Nicaragua	Peers
GLP annual % growth	average 2000-2012	54.76%	42.58%	36.47%	50.96%	22.81%	39.77%
	average pre-crisis	83.09%	46.40%	56.96%	70.51%	37.62%	49.44%
Active borrowers annual % growth	average 2000-2012	31.43%	35.73%	29.00%	32.95%	14.82%	23.78%
	average pre-crisis	50.63%	44.12%	44.51%	41.70%	26.42%	30.03%
Outstanding loans annual % growth	average 2000-2012	20.71%	27.41%	18.36%	22.06%	8.69%	19.69%
	average pre-crisis	46.65%	36.49%	38.51%	30.65%	25.42%	25.73%

Ex-ante (prior) additional causes

- Inefficient competition (the Hubris* search for becoming *the* market leader)
 - Increase of multiple lending → lack of a systematic mechanism for information exchange
 - Ill-considered opening of branches

- Weak organizational management
 - Uncontrolled HRM (recruitment → training → coaching → incentives → supervision)
 - Over-stretched MFI systems and controls (MIS, Internal Audit)
 - Lack of enforcement mechanisms (Governance – internal & external – bandwagon effect)
 - Weak portfolio management and provisioning

- Regulation-related factors
 - (Inadequate regulation)
 - Lack of supervision
 - (Political interference)

* *Hubris (also hybris), from ancient Greek, means extreme pride or arrogance*

Key questions for the future

For researchers:

- Identifying alert criteria for “excessive growth, troublesome competition and excessive access to funding”
- Understanding how exactly they tend to reinforce each other (not as simple as it looks)

For MFIs:

- Better understanding how a “good model” can be perverted (Hubris, Loss of culture, Inadequate HRM)
- Establishing a good protection against crisis before going into major developments, most probably articulating five “shields”: MIS, Internal Audit, External Audit, Governance, Regulation and Supervision

For the industry:

- More focus on “reasonable growth”
- Better focus on “supervision” (“*We should only regulate what we will supervise and we have to supervise what we have regulated*” – Jay Rosengard)
- Hubris and Bandwagon Effects are the enemies :
 “*what is too good to be true is most probably not true*”
(A lesson learned by a young Ph.D. student studying Corposol ☺ in... 1996!)



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Thank you for your attention!

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