

Recognizing unsustainable markets: towards a common framework

Looking at the demand side

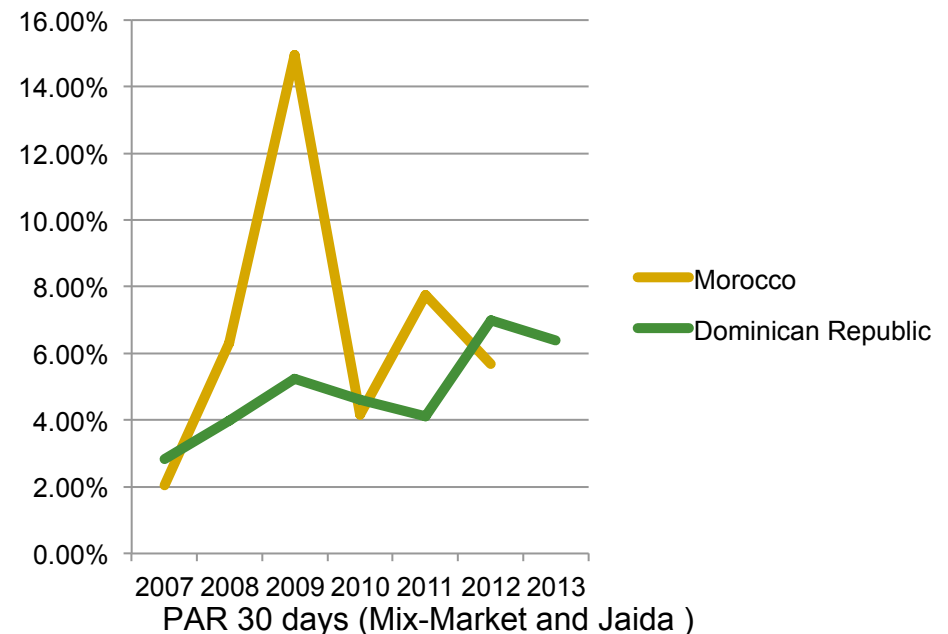
Working group « Demand side » of research project funded by the EIB-EIBURS

Gonzalez/ Mourji / Morvant

Focus of the presentation

- Morocco (Mourji, Moisseron, Servet, Morvant)
- Dominican Republic (Gonzalez, Siva Alfonso, Morvant)

- Two different scenarios



- One NGO and one bank in each country

Factors affecting repayment performance: demand side

Liquidity defaults do matter...

...but also unwillingness to repay and strategic defaults

The need to look beyond the clients....

Factors affecting repayment performance: demand side

- **Liquidity defaults and overindebtedness**
 - Competition and cross-borrowing
 - Use of microcredit
 - Local and global economic context
 - Capacity of absorption of local economies
 - Punctual adverse events (climate)
 - Credit as a substitute for income

Factors affecting repayment performance: demand side

-But also Unwillingness to repay- Strategic defaults
 - ❑ Default = not always a good signal for over-indebtedness
 - ❑ Competition / standard and homogeneous supply
 - ❑ Perception of sanctions in case of default
 - ❑ Lack of legitimacy of the MFI
 - Influence of local leaders and loan officers...

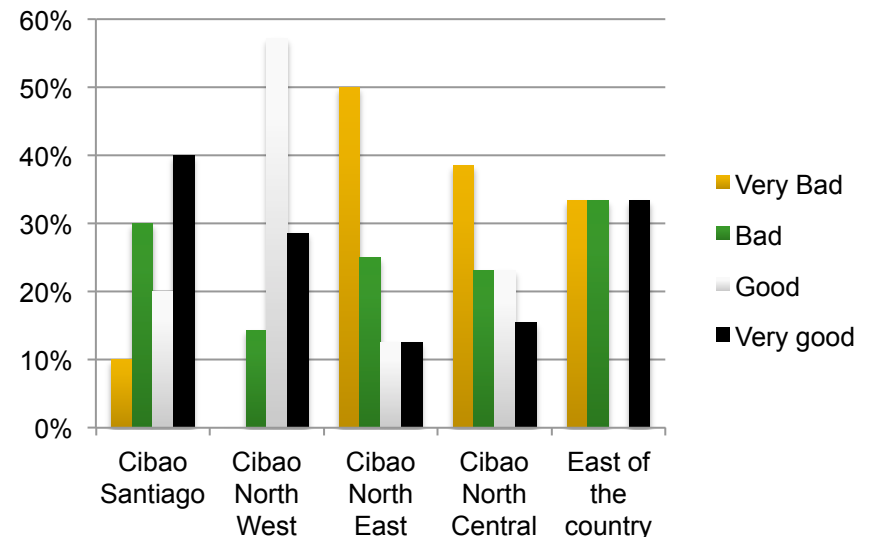
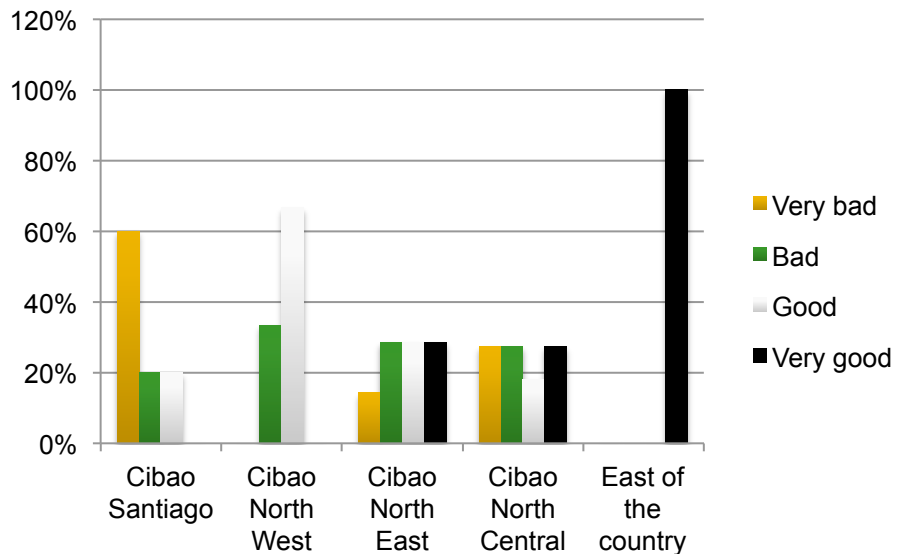
From credit risk to “operational risk”

- Key role played by Loan officers
 - **Preventing over-indebtedness** by applying clear strategy defined by the top management
 - Credit Bureau is useful but need for a systematic and clear strategy
 - Informal information on informal loans
 - Staff incentives and productivity objectives
 - **Ensuring repayment**
 - Unequal capacity to promote the local legitimacy of the MFI (Morocco)
 - Friendly attitude and permanent pressure (Dominican Republic)

From credit risk to “operational risk”

■ ... and branches' dynamics

- Unequal performances across branches of the same regions (Dominican Republic 2009 and 2011)



From credit risk to “operational risk”

- The need to further deepen the analysis at this level
- Promote a systemic approach to repayment defaults

Thank you!

