



*« How to think about governance in order to avoid crises
in microfinance organizations »*

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Presentation structure

- Research context – main sources
- A systemic vision of crises
 - a graphic approach
 - a suggested dashboard
- A systemic vision of governance

Research context

Major sources:

- HUDON, M., LABIE, M., SZAFARZ, A., (ed), (2019), "*A Research Agenda for Financial Inclusion and Microfinance*", Edward Elgar Publishing, 178 pages.
- GUERIN, I., LABIE, M., MORVANT-ROUX, S., (2018), "Inadequate Growth, Over-Indebtedness and Crises in Microcredit: What have we Learned ?", *Entreprise Development and Microfinance*, vol 29 (2), 118-132.
- GUERIN, I., LABIE, M., SERVET, J.M., (eds), (2015) "*The Crises of Microcredit*", Zed Books, London, 207 pages.
- The project « *Microfinance in crisis* » (2012-2015). Supported by the European Investment Bank University Research Sponsorship programme (EIBURS). It was led by various teams affiliated to IRD (France), CERMi (Belgium), University of Fribourg (Switzerland) and Lasaare (Morocco). Coordination : Isabelle Guérin (IRD) and Marc Labie (CERMi).
- ARMENDARIZ , B., LABIE, M., (ed), (2011), « *The Handbook of Microfinance* », World Scientific Publishing – Imperial College Press, London – Singapore, 669 pages.

Microcredit crises differ in cause and impact...

- 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!

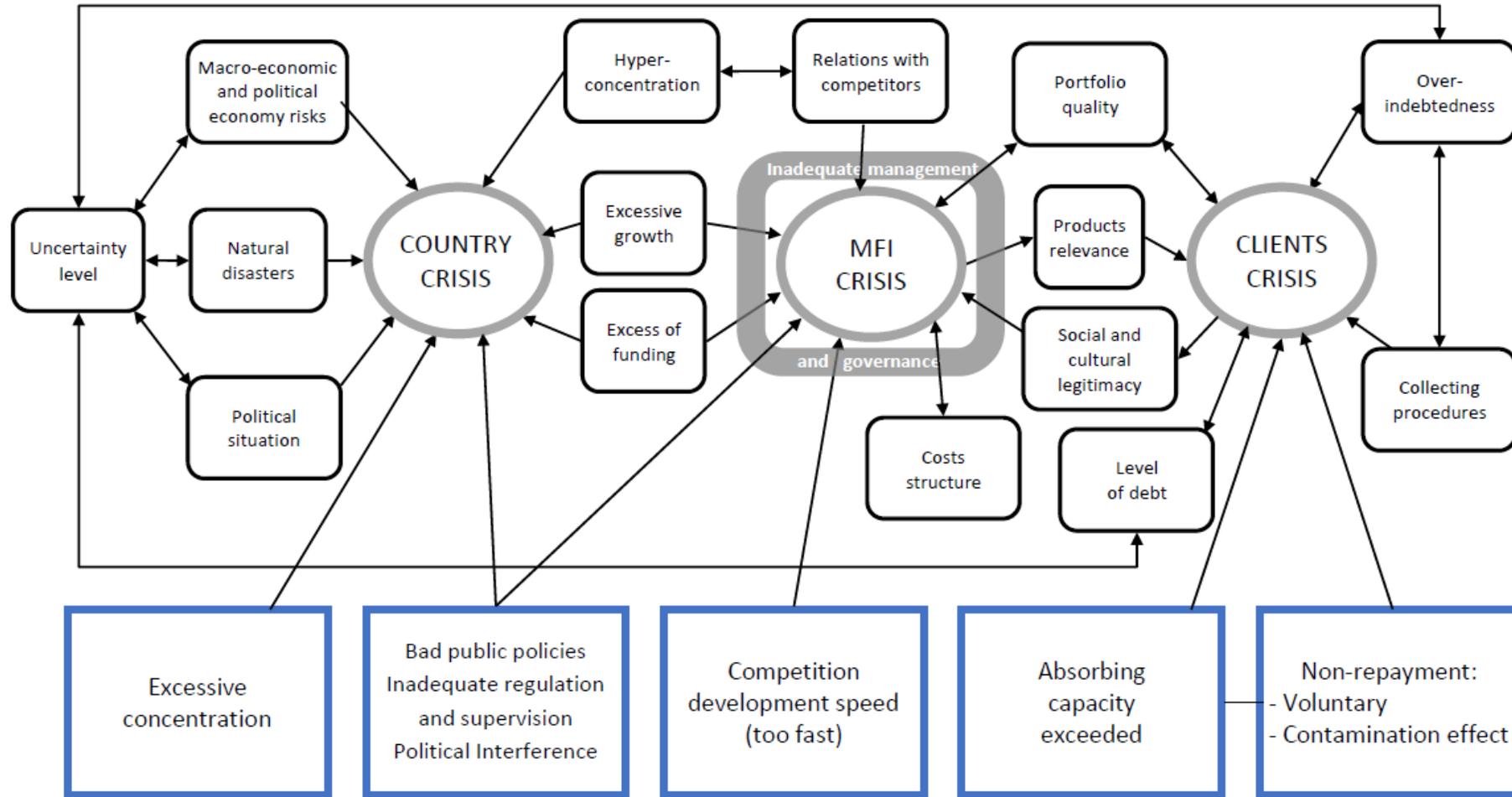
→ Systemic analysis is needed to provide early warning

→ Two overviews suggested: a graph and a dashboard

A GRAPHIC APPROACH

- 1. Three levels of crises (not always visible)** : Country/regional crises, MFIs' crises, Clients' crises (and *crisis can exist at clients level without having immediate impact on MFIs!*)
- 2. "Explaining items"** and their interactions (in black) and main **"sparkling items"** (in blue):
 - At **country/regional** level
 - Over-concentration of supply
 - "Bad" public policies, inadequate regulation and supervision, political and external pressures
 - At **MFI** level
 - Too high growth (loss of procedures)
 - The environment and inadequate competition push into wrong behaviours
 - Lack of professionalism & bad governance
 - At **client** level
 - Characteristics of the products do not match the client's needs, potentials, norms and values.
 - > Absorbing capacity exceeded
 - > Voluntary defaults

Systemic approach of microcredit crises, a graphic approach



MICROCREDIT CRISES PREVENTION DASHBOARD

Looking for "red flags"

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

Some first conclusions on crises...

- Crises are due to a **combination of items**.
- The factors and the way they interact are extremely **diverse**.
- Microcredit markets operate in a context of **uncertainty**.
- It is not reasonable to say that one can fully explain why crises have happened in the past or why they will appear in the future. But **key features** tend to show up. So **identifying** them is not a waste of time. “Pointing red flags” could be a good starting point to improve crises prevention.
- A systemic vision of **governance can also play a prevention role!**

Towards a systemic vision of governance, Labie, Mersland, 2011 (based on Charreaux 1997) [The Handbook of Microfinance]

	Specific Mechanisms	Non-Specific Mechanisms
Intentional Mechanisms	<ul style="list-style-type: none"> • Direct shareholders control (assembly) • Board of directors • Salary and bonus mechanisms • Formal Structure & organization chart • Internal Auditors • Ownership structure 	<ul style="list-style-type: none"> • Legal Environment (Regulation and supervision procedures) • Legal Auditors • Consumers Associations • National and international associations and networks
Spontaneous Mechanisms	<ul style="list-style-type: none"> • Informal (relationship) Networks • Managers cross-control • Corporate culture • Reputation (among the employees) 	<ul style="list-style-type: none"> • Depositors • Financial Providers (MIVs and others) • Labour Market • Political Market • Media Environment • Business Culture

Some concluding remarks...

- Crises are often systemic (combination of factors) and therefore, protections should be based on a variety of mechanisms. So, governance is more than board management (even if board management is important).
- The relevant governance mechanisms to avoid crises may change over time (depending on the environment and the way the MFI is developing).
- Spontaneous specific mechanisms often play an underestimated role in microfinance (and when they are jeopardized, the true impact may be underestimated).



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Thank you for your attention !