

What are the main causes of client over-indebtedness and actions to recommend ? Evidence from Morocco and Madagascar

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Morvant-Roux Solène (solene.morvant-roux@unifr.ch)

Presentation of *whom and what*

- Team working on microfinance in different contexts:
 - India, Mexico, Morocco, Madagascar, Dominican Republic, Senegal
- Co-team members : Guérin, Labie, Servet
- Projects/publications:
 - Microfinance in crisis: www.microfinance-in-crisis.org
 - Book : Guérin I., Morvant-Roux S. & Villarreal M., (2013). *Microfinance, indebtedness and over-indebtedness: juggling with money*, Routledge.

Outline

- Introduction
- Main causes of over-indebtedness
- Actions to recommend
- References

Introduction

- Over-indebtedness : at the heart of microcredit crises
- But its conceptual definition is very vague and frequently confusing
- Wide variety of definitions and indicators of over-indebtedness
 - indicators include default rates, cross debt and ratios to compare debt and income
 - sophisticated indexes have also been elaborated, aiming at capturing the various facets of the phenomenon or borrowers' subjectivity (Schicks 2011; Finmark Trust & Unisa 2009)

Introduction

- Rising the question: whether Microcredit policies are part of the solution or the problem ?

Main causes of over-indebtedness

- Repayment defaults/ cross-indebtedness or on-time repayment provide limited information on borrowers' capacity to repay
- Juggling practices are widespread
 - Microcredit= small part of households' indebtedness → 20% (Collins & Morduch, 2009)
 - Needs for cash-flow management are important

Main causes of over-indebtedness

- ❑ Juggling is practiced by most of households: in **Madagascar** 33/47 people juggle financial institutions/ products of the same institution / formal and informal
 - Search for flexibility/better cash-flow management
- ❑ Both rich and poor households, have calculation and financial management capacities that are reflected in financial juggling
- Some borrowers show good repayment but are over-indebted



Main causes of over-indebtedness

- Late repayment is not necessarily a sign of over-indebtedness
 - Morocco: lack of legitimacy leads to repayment defaults

Ouarzazate movement against microcredit providers

pockets of defaults of up to 80% of borrowers in some villages

- Key role played by local leaders, credit officers (Morocco)

Main causes of over-indebtedness

- Over-indebtedness as a result of economic context both local and global
 - looking at local economies and their absorption capacity.
 - Punctual local crises
 - Morocco : drought or flooding → high defaults
 - Global context
 - Global crisis and a widening gap between needs and cash incomes

debt is often a substitute for income

Main causes of over-indebtedness

- When supply matches the diversity of local needs in contexts with economic activity development potential, microcredit can play a positive role, as the Malagasy case study illustrates (*Wampfler et al.*).

Mainly for the less poor

Main causes of over-indebtedness

- Need to situate microcredit within the totality of financial practices into which borrowers are embedded
- microfinance alone is rarely the sole cause of household over-indebtedness, which equally involves unexpected crises and/or structural constraints
- Microcredit catalyzes pre-existing imbalances and accelerates declines.

Actions to recommend

- All the actors involved in the sector should be concerned
- Contradiction between objectives (growth + profits and clients protection)
- To face delinquency crisis, MFIs (Morocco) have increased interest rates + debt restructuring

Actions to recommend

- Microfinance institutions
 - Credit officers: key actor in assessing client's borrowing capacity but often face high expectations in terms of productivity !
 - Need for innovation and adaptation (still!)
 - Better articulate Credit and savings
 - Financial education: useful but accompanied with less competition and pressure on credit officers

Actions to recommend

- Sector level
 - Less competition
 - Credit bureau useful but depends on the way it is used + informal finance is not taken into consideration
- Donors
 - Accompagny the sector in the search of better practices and high professionalization at each step of the lending activity
- MFI investors
 - Adapt investments and expectations
- All : follow up of macro-economic conditions

Actions to recommend

- Researchers
 - Impact assessments are useful but also the way poor people experience credit/debt is important
 - Over-indebtedness: financial dimensions are important but also people's perception of the debt burden and cost : a degrading debt is not always the most costly
 - Qualitative analysis is strongly needed

References

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Thank you!

To know more about the project:
www.microfinance-in-crisis.org