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# Inadequate growth, over-indebtedness, and crises in microcredit: what have we learned?

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**Abstract:** *Microcredit markets and institutions have experienced a certain number of major crises over the last decades. This paper aims to understand the dynamics that have led to those crises, including latent crises, by analysing a set of factors at three levels: customers, institutions, and markets. Based on multidisciplinary research, it provides a holistic and systemic understanding of microcredit crises and a graphic representation of the main causes and interactions. It calls for a broad conception of sustainability, which should be understood not only as a financial issue, but also as a sociocultural and political issue, at the level of both microfinance institutions (MFIs) and clients. The paper also identifies some of the key questions that anyone should ask when getting involved with microcredit programmes or institutions in order to avoid crises.*

**Keywords:** microcredit, crises, growth, governance, over-indebtedness

## Introduction

Microfinance is facing a variety of opinions these days. For some, it is still a very promising tool to be integrated in multi-dimensional approaches to development. For others, on the contrary, microfinance and specifically microcredit is the object of furious attacks. There are a variety of criticisms that can be made, but most critics would probably agree that the main two are: first, microcredit has not generated the impact that was expected from it; and, second, in many real cases, microfinance seems to put people even more at risk by contributing to over-indebtedness. This debate has been widely addressed in the literature by scholars committed to assessing the impact of microfinance on poverty and economic development. A recent extensive literature review by R. Cull and J. Morduch concludes that so far available evidence in various contexts and programmes shows that microfinance has neither had impacts on poverty reduction nor acted as a transformative socio-economic tool (Cull and Morduch, 2017). Few studies manage to show an improvement in borrowers' well-being, however. The paper concludes that still microfinance should receive some attention (and subsidies) as a tool that enhances cash flow management of the poor, allowing them to smooth consumption or to face temporary financial distress. This is the view adopted here. Although the merits of microcredit are much more limited than those claimed by some of its promoters

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for some time, and the demand for microcredit is certainly lower and, in many cases, different from that expected, as we will see later in the paper (consumption versus production), because we live in a financialized world (whether we like it or not), we believe that there is still a need to provide financial services to the people who do not have proper access to mainstream finance, even if progress still needs to be made to provide fair and adequate services.

The key challenge, indeed, is to be aware of the risks faced by the borrowers. Coming back to the overview offered by Cull and Morduch, no (positive) economic impact does not mean no impact at all. Actually, while the literature on impact brings a lot of useful empirical evidence, the literature on negative impacts, including over-indebtedness, is much scarcer. Of course, what is considered over-indebtedness can also itself be open to debate. For a long time, as long as clients were able to comply with their financial obligations, the issue was perceived as being 'under control'. More recent research has clearly shown that this is not an adequate view, as some beneficiaries of microfinance sometimes have to make what they consider unacceptable sacrifices in order to meet their financial duties (Schicks, 2013; Afonso et al., 2017) and/or become impoverished through debt, including microcredit (Guérin et al., 2013). Taking this broader approach into consideration, over-indebtedness is clearly a bigger issue than originally estimated.

While pursuing research for the European Investment Bank ('The Microfinance Crisis Project'), we came to the conclusion that microcredit (if we wish to limit ourselves to the credit side) is not *by itself* creating over-indebtedness. It depends on how it is done, in which contexts, and with whom. It is true, however, that some microfinance institutions' (MFIs) practices are creating such risks, even though, of course, this was never part of the MFIs' intentions, simply because it may cut off the branch they are sitting on. So the right question should be: what are the dynamics that lead MFIs to practices that increase the risk of over-indebtedness of their customers?

Some people will rapidly answer that a 'commercial approach' is to be blamed for this; refer to the debate of the early 2000s opposing social impact and profitability (Woller et al., 1999; Morduch, 2000; Gravesteijn and Copestake, 2010). It may be true in some cases but it is too simple to see it this way. First, because over-indebtedness may happen under poor practices by MFIs which are not particularly commercial; and, second, because, not all commercially oriented MFIs do lead to an overall increase of over-indebtedness situations.

Others would like to blame 'best practices', as they are supposed to guarantee MFIs' sustainability but without considering sufficiently the true interest of their customers/beneficiaries. Once again, there may be cases where this explanation will stand, but there are also many other cases where over-indebtedness would not have increased should MFIs have really respected the word and spirit of those 'best practices'.

So, something else must be at stake. Our hypothesis is that the fundamental cause for MFIs to adopt poor practices that may ultimately result in over-indebtedness for their customers is an inadequate management of growth for the organizations and for the sector. Of course, identifying what is 'an inadequate management of growth' is easier said than done. This paper will try to contribute to this aim.

We are not the first to analyse microcredit crises. A Consultative Group to Assist the Poor (CGAP) note from 2010 already provided a cross-analysis of some of the major crises, with a primary focus on the supply of microcredit, and by using a management approach the authors reached conclusions about the role of 'uncontrolled growth' and 'patterns of growth' (Chen et al., 2010). Other studies focus instead on the role of the demand for microcredit and the global environment (for instance the agrarian crisis in India; the global financial crisis in various contexts), and use frameworks of analysis inspired by political economy or economic anthropology (Servet, 2011; Taylor, 2011; Guérin et al., 2013; Mader, 2013). Our aim is different: rather than analysing specific cases, and even if our analysis draws on four specific regions in which we have conducted fieldwork, we offer a conceptual framework based on a holistic and systemic understanding of microcredit crises which, we believe, could be used to prevent forthcoming crises. Rather than privileging one side of the crises – supply, demand, or the environment – we investigate these three components and their interactions; this allows for innovative results, for instance by showing that in specific contexts microcredit is more dangerous than usually thought or, on the contrary, elsewhere microcredit is not the only responsible factor for over-indebtedness. Finally, combining various perspectives (management, political economy, socio-anthropology) sheds light on aspects such as the social legitimacy of MFIs or attitudes and social norms around debt, aspects that are usually ignored, or at least under-estimated, which are instrumental in explaining both rejection and acceptance of microcredit (Guérin et al. 2015a).

For the fieldwork used in this research, four countries were selected as case studies, because of their diversity of situations and the quality of existing or potential partnerships with local stakeholders: Tamil Nadu (India), Morocco, the Dominican Republic, and Senegal. Our method combined a comprehensive approach, based on field surveys, mostly observation and interviews with a large range of stakeholders (clients, non-clients, loan officers, branch managers, MFI managers, regulators, representatives of apex organizations, informal lenders, etc.), and statistical analysis, based on data from the management information systems of the partner MFIs associated with this project.

The remaining part of this paper consists of four sections. The next section discusses what courses of actions may be considered 'at risk'. Then we discuss how these actions may be influenced by a variety of factors linked to the key characteristics of supply, demand, and the environment in which microfinancial intermediation is taking place. A further section suggests a framework for analysing the microfinance industry and its potential for crises. The penultimate section considers some key questions that donors and MFIs should ask themselves when designing growth strategies, and this is followed by a concluding section.

## The ways to be 'at risk'

Microfinance is a concept that covers a wide variety of methodologies to deliver financial services to previously excluded customers. Some focus on individual loans, others on groups. Some are made through commercial for-profit organizations, while others are using pure non-profit institutions. Some are run on cooperative principles

while others are run as shareholding companies. But all of them would usually say that they wish to contribute to financial inclusion without making their customers' situation worse. This means that increased over-indebtedness is neither an objective nor even an acceptable by-product of what microfinance – double bottom line or not – is supposed to be. However, as has been well documented, there are cases where microfinance institutions are either responsible – or at least partially responsible – for increased over-indebtedness dynamics. How can this be?

Generally speaking, we could consider that over-indebtedness happens when people are not able to face all their financial obligations without making excessive sacrifice. There are at least three triggers for this type of situation. First, individual shocks. Poor people can get sick, have accidents, or face all sorts of personal distress that reduces or annihilates their ability to repay even though they would like to do so. Second, environmental trends. Depending on the environment in which a customer is living, she or he may actually be more or less exposed to the risk of over-indebtedness. Environmental trends include labour opportunities and degree of social protection, but also social and cultural norms. In some societies, for instance rural Morocco, credit is frowned upon, therefore protecting people, to a certain extent, from borrowing too much (Morvant-Roux et al., 2014); in other societies, for instance rural south India, borrowing is so part of daily life that it spreads quite easily (Guérin et al., 2015b). The level of consumption goods that a society considers 'normal' may also put pressure on individuals, pushing them to borrow more than their ability to generate incomes can cope with (Wilhite, 2008). The third trigger is institutional practices. Microfinance institutions are sometimes in a quasi-monopoly at the local level and can, in those cases, develop reasonably peacefully at whatever pace they are capable of. However, with the huge development of the microfinance industry over the last 40 years or so, those cases tend to be less frequent than before. This has had some advantages. For instance, MFIs are now, much more than before, capable of benchmarking themselves against others and are therefore capable of making relevant changes to be more efficient, resulting – to a certain extent (even if it is often not a fully satisfying one) – in lower interest rates charged to their customers, as was the case in Bolivia. But this has also generated its inconveniences. For example, in many markets, MFIs are more concerned about how to grow and get bigger than their rival firms than anything else, therefore resulting in harsh competition, leading in some cases to bad practices.

In some cases, we shall also note that borrowers could repay but are unwilling to do so. Repayment defaults can be interpreted as political messages toward a microfinance organization, the microfinance industry, or more globally toward 'authority'. These practices may be related to the inadequacy of financial services, a feeling of unfairness due to aggressive marketing and strong-arm enforcement mechanisms, a lack of integration and legitimacy within local contexts, and conflicts of interest. They can be spontaneous or encouraged by corrupt practices of some leaders, perceived or made public. They can be individual or collective. They can be initiated by the entire clientele or only by a particular interest group. These resistance practices may also be related to the climate of distrust of a particular

political situation. They emerge more easily when borrowers have access to alternatives, whether consumer credit or informal finance.

As for the issue of this paper, we could assume that a MFI is not doing its work properly when it gives access to credit products to customers that are not well-suited for them. Broadly speaking, we can think of two main cases: first, existing customers of the institution who have already reached their potential threshold; and, second, new customers to whom products are provided that do not match their need and ability to repay.

For existing customers, the dynamic is easy to understand. The institution has developed a (sometimes successful) portfolio by creating credit history and relationships with some customers. It is therefore highly tempting, in order to grow, to use this trust and the regular visits to provide them with larger loans or with additional products and services. The problem is that, in some cases, this may mislead the customers about what they need, as the marginal return that these other services will generate for the customers is not in line with the additional costs they will generate for them. So, while originally they were receiving products they could afford considering their ability to generate incomes, later on they may become trapped, with too many obligations to sustain. The Corposol-Finansol crisis in the mid-1990s, which was one of the first striking crises of a major microfinance institution, is a powerful illustration of this poor practice (Austin et al., 1998; Labie, 2002). Rural Tamil Nadu (Guérin et al., 2015b), rural Morocco (Morvant-Roux and Roesch, 2015) and urban Dominican Republic (Afonso et al., 2017) are recent examples: constrained by excessive objectives in terms of portfolio and repayment rates, loan officers tend to concentrate on 'good' clients, some of which are unable to absorb the amounts of credit that are offered to them. The Indian case clearly shows a stagnation in terms of number of clients and a strong growth in amounts lent (Fouillet et al., 2016). By doing so, not only do MFIs push people into over-indebtedness but they neglect the poorest, and ultimately turn into the usual market-based financial institutions.

For new customers, the situation is a little bit different. MFIs logically start with the 'easier customers' when developing. By easier customers we mean those that have the highest credit in the community, that run well-identified and known businesses and that are usually located reasonably close-by. As time passes, this client base becomes saturated and so the question becomes how to keep growing. In some cases, an identical model will be replicated somewhere else, therefore allowing for future development as long as the characteristics of these new areas are as attractive as the first ones. However, it should be noted that the number of these 'attractive areas' is often limited, and besides, when more remote, it is sometimes hard for MFIs to find staff willing to move there. In other cases, MFIs will just keep digging in the same original areas, going after customers that they would not have served in the first place. If this was done with the consideration that these new customers may have different needs and require some methodological adjustments, there would be no real reason for concern. Indeed, what is hoped for is that MFIs will be able to diversify their products and services in order to allow for the financial inclusion of more and more people. However, if they do so by using the same methodology and conditions as standard, then there is more reason for concern.

## Understanding supply, demand, and environment contexts

Inadequate growth is of course not something MFIs are pursuing. On the contrary, they would like to avoid it as there are already quite a few documented cases showing that a MFI whose growth has not been properly managed is heading for trouble. Cases like Finansol in Colombia, Zakoura in Morocco, or SKS in India are clear examples that should be remembered. So, understanding how inadequate growth can become rooted in an MFI strategy is fundamental if we want institutions to avoid it.

We believe that the aspects to be taken into account can be classified into three categories based on their link with either supply, demand, or environment contexts. We will now review those systematically.

### *Supply*

On the supply side, we argue that three characteristics of microfinance organizations should be taken into consideration: the search for size (or market share); the search for profit; and the governance focus. Indeed these three elements are the true constraints on MFI behaviour.

In many cases, MFIs do wish to grow bigger (or to be the biggest) in a given area, which can either be expressed by absolute size – for instance total assets, total number of customers – or in relative terms – i.e. market share. A justification for this is that by being big (or the biggest) the institution will benefit from economies of scale and market power. Of course, to a certain extent, these arguments are true. However, in many cases, the level of growth that is pursued is much higher than the minimum needed for these arguments to stand. In fact, the best explanation is the famous 'hubris hypothesis' in finance literature that stresses that CEOs do wish to be the biggest in the game, mainly by personal ambition. This is particularly problematic as in microfinance as there is often a very low turnover in top executive jobs, the initial success encountered by founders often favouring excessive entrenchment of these key players. Countries like Senegal, Bangladesh, Bolivia, and many others can be considered examples of that trend.

As for the search for profits, the discussion is slightly different and may also differ depending on the types of institutions we are referring to. For some it is also a question of pride and a question of being recognized as a 'key player', so that it becomes easier to obtain future resources (including 'field prestige'). Bourdieu's work on legitimation is key here to understanding the way people play (Labie and Vanroose, 2013). For other institutions, the story is quite different, as profit is perceived as a proxy for future institutional developments including, in particular, its potential for attracting international funding or launching an IPO (initial public offering).

The third characteristic is governance focus. Governance is the overall set of mechanisms that make sure that an institution and its executives are taking decisions that are coherent with its mission (Labie and Mersland, 2011). In some cases, governance will be very active and mechanisms will make sure that the true mission is to be accomplished. In those cases, the interesting questions are: What is

the real mission of the organization? What does it want to achieve for real? In other cases, governance will be much more passive, leaving most of the decision power in the hands of the CEO. In those cases, the growth strategy will be highly dependent on the vision of this CEO, reasonable or not.

When combined, these reasons may have an extremely negative impact on the way microfinance institutions develop for two reasons. First, because, they will push MFIs to favour short-term strategies without giving due respect to product innovations, staff management, and internal control. Second, because they will also push microcredit agents to forget regular processes and procedures in order to reach their 'growth goals' at all costs, therefore making changes that will ultimately damage the situation of the MFIs and of their customers.

### *Demand*

On the demand side, as we intend to focus on the client's well-being in the short, mid, and long run, some key issues also need to be considered. First, overall demand is often much lower than expected, at least for the standardized, one-size-fits-all products (short term, small amounts, regular instalments); therefore, it is not rare that credit officers, highly pressurized by growth constraints (see above), do not respond to a demand but *create* it. As mentioned above, in some cases 'good' clients are offered increasingly high amounts, risking of over-indebtedness. One of the reasons for this is the fact that demand for 'productive' microcredit is often much lower than expected. Here too, many variations may exist (for instance, demand is almost nil in rural India and rural Morocco; higher in urban contexts), but even when microcredit is used for 'productive' purposes, profitability and income are often low and irregular. Therefore, understandably, if microcredit does not generate additional direct income, risks of over-indebtedness can be increased. By contrast, there is often a high demand for consumer credit. Several scholars have shown evidence that an important part of microcredit is used for purposes that do not generate income (Collins et al., 2009; Cull and Morduch, 2017). This, of course, questions the possibilities for repayment, especially when interest rates are high, and this may increase over-indebtedness. At the same time, a large part of these expenses concern basic needs (food, health, repayment of expensive informal debts) or contribute to improving households' well-being in the long run (housing, education, health). Two additional factors may trigger the risks of over-indebtedness: the loan modalities and the enforcement mechanisms. For the former, when credit comes with repayment schedules that don't fit clients' cash flows, are very rigid, and carry high interest rates, clients are more likely to be over-indebted. For the latter, it is important to understand that when enforcement mechanisms are strong, it will minimize the risk for the MFIs, as repayments will be good even if clients are financially vulnerable or over-indebted. A major consequence of these shortcomings is that we can now state that there are cases of crises in microcredit that affect clients without appearing – at least in the short term – as crises for MFIs on the supply side. These 'latent' crises should be a matter of concern for practitioners, donors, investors, and decision makers.

To have a good understanding of this paradox, a distinction should be made between short-, mid-, and long-term consequences. In the short term, and in many contexts, people easily juggle with a wide variety of borrowing sources, and field observations reveal that this is absolutely key in ensuring repayments; microcredit and informal sources have diverse temporalities most of the time and this diversity allows people to manage repayments. But for clients who are increasingly indebted, this can work only for a while: selling assets, sacrificing certain expenses (housing, children's education), and migration (in adverse terms) are the most common coping strategies which are problematic for clients' well-being (Schicks, 2013). In the long run, when a household's debt keeps on increasing, one may wonder how sustainable it is (see the Indian case, Guérin et al., 2015b). The issue of sustainable demand should be a matter of concern. Given the growing importance of social aspirations and consumerism, including among the most marginalized categories of the population, and even in very remote areas, if MFIs truly want to be socially responsible, they cannot limit themselves to respond to a demand; they must question the sustainability of the demand. Indeed, whatever the temporality considered, at any moment an external shock can push people into severe over-indebtedness; therefore, economies based on debt (which are increasingly common in southern countries), without any solid social protection system and access to basic public services, are extremely dangerous.

### *Environment*

Finally, on the environment side, some other key elements should be stressed.

First of all, the arguments made above are shaped by the environment and take specific forms according to social, cultural, economic, and political contexts:

- Even though, by and large, the demand is lower than is often expected, its exact scope and nature is highly diverse and environmental factors are crucial.
- Demand can be compared with economic growth (as MFI practitioners often do), but the comparison can be misleading for various reasons: excessive concentration of microcredit on specific areas and sectors, and highly unequal redistribution of economic growth among the various segments of the population.
- Enforcement mechanisms depend not only on MFI policies but on the efficiency of judicial procedures and the existence and nature of credit bureaus. Credit bureaus, often presented as an efficient mechanism to prevent over-indebtedness, may, on the contrary, translate into additional pressure on clients and unfair competition between MFIs. Dominican Republic is a typical example (Afonso et al., 2017).
- The social legitimacy of MFIs also matters, since it conditions partly clients' willingness to repay. Social legitimacy depends on the MFI's own policy and strategy, local history (cases of debt write-offs, unethical practices), and, more broadly, the reputation of the entire sector. Recent crises have seriously damaged microcredit's image in the public opinion (see for instance the Andhra Pradesh case, which ended in systemic crisis). Political climate may also matter. For instance, the Arab Spring in Morocco and the climate of generalized

corruption and impunity in Senegal have obviously contributed to the breakdown or the weakening of repayment norms (Baumann et al., 2015; Morvant-Roux and Roesch, 2015).

Second, the environment in which MFIs do develop is always constrained by two fundamental forces: government regulations and market dynamics. As for governmental regulations, it should be noted that there has been a wide shift from reluctance towards a more positive approach, with many governments being convinced that with an adequate set of regulations microfinance could develop and serve a higher share of the population. This evolution has improved the situation in some countries, by properly accompanying the development of the industry, but, in others, it has allowed the development of new institutions that were not always properly supervised. Therefore making sure that regulations and supervision practices really do match the needs of the field in order to protect customers properly remains a major governmental challenge in most countries.

As for market dynamics, the question is even harder. Indeed, when MFIs don't face competition, they can either survive even though they have low productivity and a bad portfolio quality because they are supported by a variety of local and international stakeholders in the absence of any valid alternative, or strive thanks to excessive margins that highly limit the potential for positive impact on their customers. Unfortunately, facing higher competition is no guarantee of better behaviours. Indeed, as observed in many markets such as Senegal, India, and Morocco, higher competition results in most institutions copying each other in terms of geographical and product diversification, therefore resulting in saturation of market niches that will ultimately end in over-indebtedness.

When considering all the items above, we can conclude that the ways in which inadequate growth and over-indebtedness do interact to result in crises in microcredit are multiple and highly linked to each other. Therefore, we felt that it would be interesting to suggest a framework of analysis that would allow us to visualize in a systemic way, all the key items that microfinance players who want to develop properly should keep in mind. This framework is presented in the next section.

## Towards a systemic framework: a proposal for a microcredit crises prevention overview

As described in the previous sections, one will note that in order to develop a systemic vision of what can go wrong in microfinance, it is key to understand how inadequate growth of the industry and over-indebtedness of customers combine to generate crises that can happen at three levels: the country level, the MFI level, or the client level.

In some cases, all levels will be affected, in others they will not. We shall note here that a crisis can happen at the client's level without immediately affecting the MFI or country level: this is something that practitioners, funders, and policy makers should really keep it mind. Timely repayment is not a fully reliable indicator of repayment capacity. Various strategies, from the clients' side, simply postpone crises: informal finance juggling practices, selling assets, or migration.

As shown in Figure 1, five salient items have been identified: excessive concentration, bad, public policies, excessive competition, absorption capacity exceeded, and non-repayment (which can be voluntary or involuntary).

There are elements that have proven, in different circumstances, to contribute to the explosion of a crisis. But, of course, they are not sufficient by themselves to explain why a crisis happens. Indeed, in some countries, these characteristics may be present without developing a crisis; the key is in the *combination* of factors, as demonstrated in Figure 1. It shows how key characteristics can play a role in order to prepare the ground for trouble.

In all cases, a central issue is that of 'unsustainable growth', here again at different levels (clients, MFIs, country/region). Sustainability should be understood from various angles: financial, of course, but also sociocultural (the acceptability and legitimacy of MFIs or microfinance as a whole) and political. The issue of political sustainability refers to the power relationships between the various stakeholders, starting with relations between clients and MFIs (how far each party can protect its own interests), to relations with funders (who may play a key role in over-rapid growth), or outsiders (state, political parties, or any organized group, who may play a role in eroding MFIs' legitimacy).

## Resulting key questions

Our framework of analysis allows for identification of some of the key questions that anyone should ask when getting involved with microcredit programmes or institutions. In order to avoid crises, based on Figure 1, we think that questions should be organized in three different sets (Guérin and Labie, 2016).

### *At the client's level:*

- Is the microfinance client able to repay without making 'abnormal sacrifices'?
- Is the microfinance client willing to repay?
- Are the services offered to him/her relevant and adequate to fulfil his/her needs?
- Are the services offered to him/her offered at a reasonable price (from the client's point of view)?

If the answers to these four questions are positive, we have good grounds to consider that, from the client's perspective, there is no reason to foresee a crisis. Of course if, the answer to any of these questions is 'no', it does not imply that a real crisis will develop automatically, but it is a reason to worry and to look for improvement.

### *At the MFI level:*

- Are the clients true to the institution?
- Is the quality of the loan portfolio satisfactory?
- Are all the costs well covered in a sustainable way?
- Are growth and operational management a source of tensions?
- Is governance strong enough to control the strategic development of the MFI?

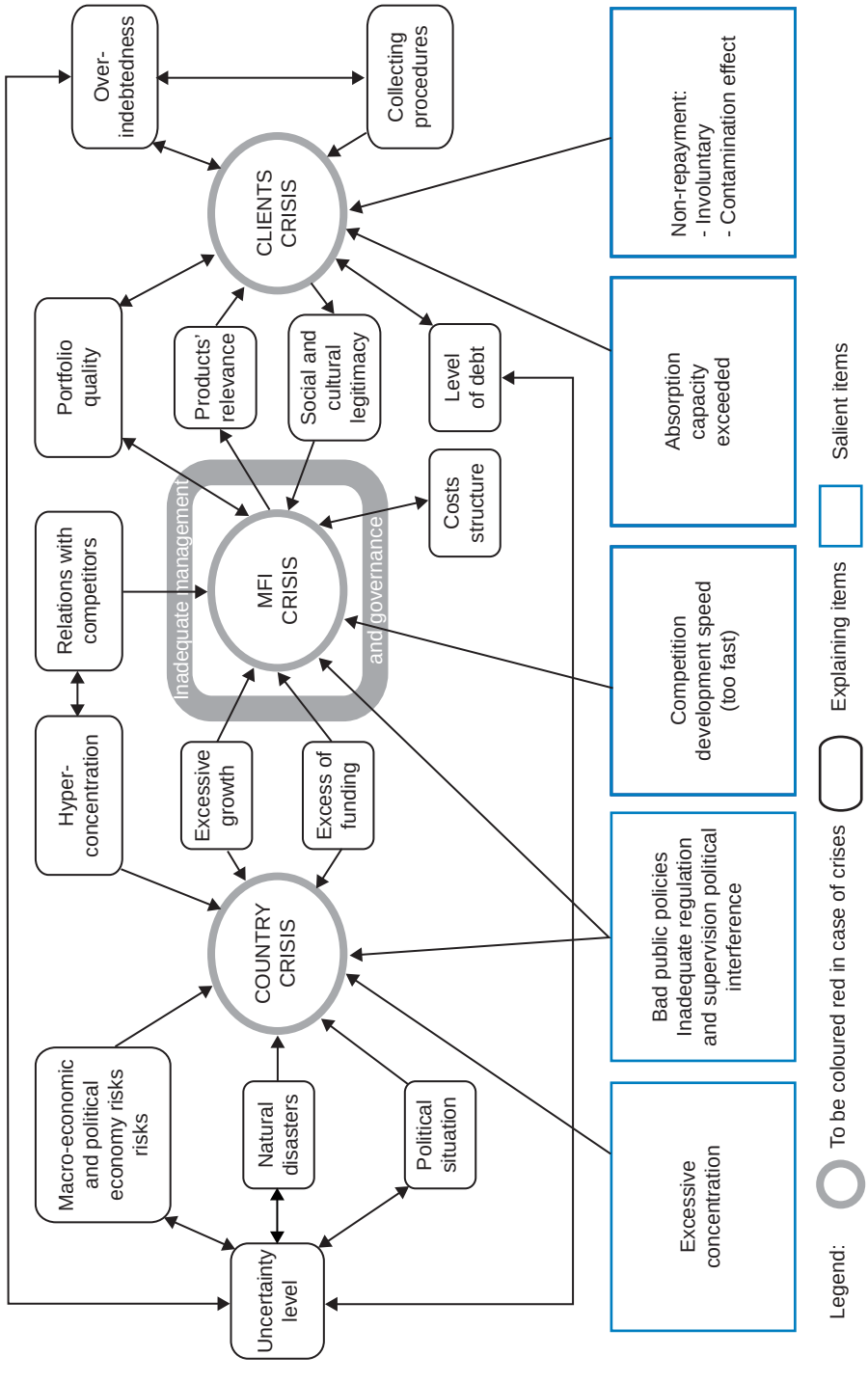


**Figure 1** Microcredit crises prevention overview

If the answers to these five questions are positive, we have good grounds to consider that, from the MFI perspective, there is no reason to foresee a crisis. Of course if, the answer to any of these questions is 'no', it does not imply that a real crisis will develop automatically, but it is a reason to worry and to look for improvement.

***At the country/regional level:***

- Is there anything that pushes consumers and/or institutions into excessive borrowing/lending?
- Is the microfinance market saturated?
- Can the way in which competition is developing in the microfinance market be considered 'unfair' or 'unsound' in any way?
- Is there any risk of a major macroeconomic crisis affecting MFIs' customers?
- Can the regulation and supervision authorities and the public policies related to microfinance be considered inefficient or dangerous for the microfinance industry?

If the answers to these five questions are negative, we have good grounds to consider that, from the country/regional perspective, there is no reason to foresee a crisis. If the answer to any of these questions is 'yes', it does not imply that a real crisis will develop automatically, but it is a reason to worry and to look for improvement.

## Concluding remarks

Most of the time, crises are due to a combination of items that alone would not have had the same effect. As we have tried to show, the factors and the way in which they interact to generate major crises in microfinance are extremely diverse. In some cases, the failure of a major institution will reveal the weakness of the entire industry; in other cases, crises will grow unnoticed until they explode due to some context changes. In some cases, the wrong incentives, practices, or strategies will have to be blamed. In other cases, public policies and their implementation will be blamed. Sociocultural factors, which are instrumental in building the legitimacy of MFIs (and therefore clients' loyalty), also play a much bigger role than is often assumed in the microfinance industry.

We shall also note that in all situations, microcredit markets remain fragile because they operate in a context of uncertainty and high vulnerability of clients: lending money to people who have low, irregular income and lack social protection is, in essence, risky. It is all the more risky when growth objectives and financial sustainability constraints lead MFIs to target only a small proportion of the excluded population, but also to concentrate on and accumulate through specific segments of their clientele, in specific geographic areas. What should also be queried is the general framework within which microcredit providers

operate, and especially the illusion of a large and sustainable demand for productive purposes. Growth objectives should be proportionate to *true* demand, in line with the absorption capacity of clients and local economies rather than MFIs' sustainability or profitability constraints, as is too often the case. MFIs' strategies and products should also take into account existing financial practices, which, as we have seen, are often highly dynamic and articulate in various ways with microcredit, sometimes increasing the risks of over-indebtedness, sometimes preventing it. Last, despite regular calls for it, insufficient attention is paid to services other than microcredit, particularly savings, which have the immense merit of not putting clients at additional risks (while raising many other challenges).

These crises sound the alarm as to what is going fundamentally wrong with microcredit. Yet this does not mean that there is a need to purely and simply drop the supply of loan services to individuals excluded from the commercial banks, especially if we consider the need for other financial services such as transfers, local and remote payments, insurance, and savings. In the financialized world we live in, the very idea of financial inclusion is a legitimate one, but efforts still need to be made to achieve true inclusion and to make the system user-centric, not provider-centric.

Any dynamic industry will always experience crises, and there is no doubt that microfinance is a very dynamic one if we consider the huge development that has prevailed over the last 40 years and the far from negligible growth that is still animating many markets. To a certain extent, crises are even chances to reshape and learn. However, crises are also situations where many people do suffer. So, it is crucial to make sure that crises do not happen because of the same mistakes or wrongdoings. Having a clear understanding of the key reasons for some of the crises experienced by the industry can perhaps help us to avoid falling into the same trap twice. Through this paper we hope to have contributed in some way to this prevention.

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