

Microfinance: is there really a crisis?

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To answer this question we should define what are we talking of, first of all. What do we mean by a “crisis in microfinance”? Is it the crisis because of the Global Financial Crisis? Or the crisis of over indebtednesses? Or ethical crisis? Or, perhaps, is it the crisis of the microfinance mission? There is a number of angles of that question and every is reasonable... In my perspective, it's mostly because microfinance now is recognized globally but still exists locally. And every country has it's our unique situation and, eventually, unique answer on the question of crisis in microfinance.

My own feeling of this issue may be expressed as follows.

Microfinance originated from a philosophy of self-sufficient, yet not-for-profit activity aimed at the provision of microloans to low-income populations. However as the industry developed it became clear that the volume of the demand for microfinance services significantly exceed the volumes of not-for-profit funding available for this sector of economy. Consequently, a need to involve commercially oriented investors was realized, and thus a need to establish a certain profit margin on invested capital. This is how the stage of “microfinance commercialization” started, which allowed the manifold growth of the industry in a short period of time, at the same time posing a series of important questions regarding the keeping a balance between the social and commercial components of microfinance. While attempting to solve this mainly ethical dilemma we came to a paradoxical conclusion: doesn't the very contradictory nature of the issue follow from a wrong perception formed about microfinance service recipients as some kind of “financially disabled” people that require special treatment? The solution of paradoxes often involves coming out of the boxes of stereotypes and looking at an issue from a different angle. In this case, the Concept of the All-Inclusive Financial System may provide such a new outlook. The main idea of the Concept is that a financial system should be able to serve the whole “client pyramid” from the very base (low-income people) up to the top (a limited number of the wealthiest customers) within common standards of social responsibility, consumer rights protection, pricing transparency and ethical treatment of delinquency. In other words, both the rich and the poor – all should have equal access to finance and equal degree of protection.

So, the most interesting questions for me in this approach are: would this philosophy fix the reasons for a crisis in microfinance? Is it able to cut the Gordian knot of the confusion between the social and commercial aspects of microfinance? Finally, how should we see an effective all-inclusive financial system look like in 10 years?