FEATURE ARTICLES

Unorthodox Microfinance: The Seven Doctrines of Success

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As we gaze nervously at the threshold of a new millennium, I feel a sense of urgency to share with my friends in the microfinance community some observations regarding a few of the orthodox practices of this nascent industry. In conjunction with these observations, I want to take advantage of the auspicious incorporation of some credit unions into this edition of the *MicroBanking Bulletin*, by sharing with the readership my seven doctrines of success for "unorthodox" microfinance.

There is one reason for this article: the time has come for all of the faithful believers of microfinance to consider the need for radical reform of the orthodox approach of using financial services to achieve poverty alleviation. Whether bank, NGO, or credit union, this message is for you.

Microfinance Confessions

My sense of urgency has grown because I have observed some ever-widening cracks in the bulwark of these microfinance institutions. I well remember attending the Microcredit Summit in Washington, D.C. in 1997. The sight was an entire auditorium, filled to capacity with everyone joining hands and singing, "We shall overcome." Since that momentous day, I have come to the sad realization that without a major correction in our approach, we will not make it to the Poverty Alleviation Hall of Fame.

I base this conclusion on several "confessions" I have heard recently from microfinance leaders regarding the challenges facing this young industry. Ironically, the following confessions are the overriding reasons why credit unions have not followed the conventional wisdom of microfinance.

1. *Unpopularity of Solidarity Group Lending*: MFIs are increasingly offering individual rather than group loans. In some cases, individual loans now supersede group loans as the lending methodology of choice. This shift has resulted from the high demand of borrowers who do not like having to guarantee the loans of others. The words of one colleague resonate loudly in my ears: "We seem to do a good job of offering loan products that people do not like."
2. *High Desertion Rates*: I was amazed to learn that a highly acclaimed MFI experiences a 40 to 60 percent desertion rate. Evidently, this institution is now looking at alternative lending methodologies and a broader selection of microfinance products to curb this outflow.
3. *Non-Competitive Model*: I heard another microfinance leader lament: "When we created the microfinance model, we didn't consider the prospect of a competitive market with different institutional players." Hence, many MFIs are having difficulty offering competitive interest rates because they followed a model that was more concerned with outreach than with efficiency.
4. *High Delinquency and Concentration of Portfolio Risk*: The luster of the highly visible microfinance success stories in Bolivia is beginning to tarnish. Increased competition has caused many MFIs to over-lend, resulting in an alarming increase in delinquency and, curiously, a call for debt relief from innocent clients who borrowed but could not repay. Recently, some employees from the Bolivian Government expressed their concerns to me: "NGOs have not only put all of their eggs in one basket, they have over-filled the basket as well!"
5. *Democratic Development Takes Too Long*: Finally, a successful microfinance visionary confided, "Dave, I am not going to live forever. I want to see real impact in my work before I die. Democratic development takes too long to get everyone to accept what you are doing. [Autocracy] is the best way…just do it yourself."

These confessions have reminded me of a thought-provoking statement made by the father of credit union development, Friedrich Wilhelm Raiffeisen, sometime after the first credit union was formed in Germany in 1847: