



# Microfinance and financial crisis

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With Damian von Stauffenberg, Director of MicroRate





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# MICROFINANCE AND FINANCIAL CRISIS

« What lessons for investors in microfinance ? »



Over the last decades, microfinance has grown as a powerful tool to alleviate poverty worldwide. Is microfinance being affected by the international financial crisis? If so, how? Because of the very fast growth of microfinance institutions and the increasing competition between them, we are today facing an industry that is different from the image of microfinance that investors often hold. For example, microfinance is said to flourish when economic times are bad. Is it still true? What lessons for investors in microfinance are emerging from the crisis? Damian von Stauffenberg addressed these questions at the Microfinance Lunch Break (Midi de la microfinance) in February 2009, in Brussels and Luxembourg. Mr. von Stauffenberg is the founder of MicroRate, the premier rating agency specializing in microfinance. MicroRate has closely followed MFI's in developing countries since 1996, the year when it introduced ratings to microfinance.

**For the first time**, the concept of "Midi de la microfinance" which was set up in 2006 in Luxembourg has been exported to Belgium under the name of "Microfinance Lunch Break". It's a proof of the financial sector's interest for this topic, not only in Luxembourg but also out of borders. Together, ADA (Appui au développement autonome) and BRS (Belgian Raiffeisen Foundation) have given a new dimension to their partnership programming such seminars in Belgium.

Two "Microfinance Lunch Break" were organized on **10th February, 2009 in Brussels** and on **11th February, 2009** in Luxembourg with the collaboration of several partners: in Luxembourg, the Ministry of Foreign Affairs – Direction of Cooperation and Humanitarian Aid, the Banque de Luxembourg and Etika, asbl; in Belgium, the KBC bank, Cera and Febelfin.

# MICROFINANCE: TESTING ITS RESI- LIENCE TO THE GLOBAL FINANCIAL CRISIS

Source : Fitch Ratings, 22 janvier 2009

[www.fitchratings.com](http://www.fitchratings.com)



In a special report, "*The Microfinance Sector: its Success Could be its Biggest Risk*", dated 16 June 2008, Fitch Ratings highlighted that the rapid expansion of the microfinance

industry and, as a consequence, its growing integration (although still limited) into the global financial system exposed the sector to increased risks. The global financial crisis is now testing some industry views that this segment may be resilient to wider economic shocks. There is growing evidence that the larger, more integrated players in this sector are experiencing increased pressures. Given the concentrated nature of the industry (with the 100 largest microfinance institutions (MFIs) estimated to account for 80% of sector assets and 70% of sector borrowers at end-2007)<sup>1</sup>, it is Fitch's view that it will be difficult for the microfinance sector to be immune to the global financial crisis.

The microfinance sector has hitherto been known for its successful management of high double-digit growth figures, good asset quality, for its particular funding profile, which includes a mix of public and private, com-

mercial and socially- motivated funders, and its claim of relative insulation from global macroeconomic shocks. However, as with the wider global financial system, the impact is going to be twofold: a funding or liquidity impact and an economic impact. The effect of these will place new burdens on MFIs and may bring about an important change in the operating framework for many MFIs and their clients. Some early and preliminary conclusions can be drawn, although the full extent of the impact has still yet to emerge.

## FUNDING AND REFINANCING RISKS

The MFI sector's main sources of funding are wholesale funding from development finance institutions (DFIs) and socially-motivated funders; and, in certain countries (e.g. Peru) are also customer deposits. To a large extent, wholesale funding from DFIs and socially-motivated funders, tend by nature and intent to be countercyclical. As the more commercial sources of wholesale funding become less available, MFIs are thus able to turn to DFI

funding to fund gaps and continued growth (albeit at a reduced rate). This should soften the impact on MFIs of funding constraints on the international markets.

Nevertheless, the availability of commercially orientated public and private sector funding has reduced and become more expensive as country and issuer specific exposure limits are cut back. This has contributed to increased levels of refinancing risks, particularly for non-deposit taking MFIs dependent on local or international wholesale funding, although this seems to vary from market to market, with eastern Europe and central Asia and the Balkans experiencing tighter funding constraints, for example, than central and Latin America.

Refinancing constraints are particularly felt by MFIs that tap wholesale and more commercial sources of funding – such as local commercial banks and international microfinance investment vehicles (MIVs), including CDO structures (although such structures only represented a marginal source of funding for a few top MFIs, despite their high profile). In addition, funding from international financial institutions (IFIs) is also reaching limits due to counterparty or country exposure limits, and also to their restrictions in raising co-financing for MFIs through syndications. More active balance sheet management has now become a critical area of focus for some MFIs. A concern for Fitch is that some may not be appropriately structured from an operational perspective to deal with these challenges.

## CHANGING GROWTH DYNAMICS

MFI loan portfolios are very cash-flow generative given their relatively short-term nature, which is a big positive in this type of environment by providing an important source of internally generated liquidity. Faced with refinancing constraints, MFIs will now need to look to their loan books as a source of liquidity to service maturing obligations. As a consequence, lower growth scenarios for 2009 are very likely, falling from high double-digit growth rates, which were characteristic of these past years, to single-digits/low double-digits. Where there are particular liquidity pressures, a shrinkage of the book is even possible.

Given these new growth dynamics, their success in managing this – for example, explaining to existing or new customers that new loans are not available due to funding constraints – will depend on the quality of the MFI's internal communication and management, and on its level of integration with the community (with those more integrated best able to manage this delicate communication). Postponing or stopping repeat loans does however pose one major risk, as it destroys one of the key incentive elements in ensuring borrower repayment and client liability – often, the availability of a larger loan, for a longer term, hinges on good repayment history on smaller, shorter loans.

Freely available credit in recent years has meant that even in this market segment there are concerns at the extent of leverage that has been assumed by clients, which is often difficult to monitor due to limited information in some markets. The combination of less credit

being available, lower economic growth and higher inflation is expected to contribute to increased arrears. While in most cases we would expect portfolios at risk to remain manageable, trends, in particular rising non-performing loans (NPLs), will no longer be distorted by rapid loan growth. In some markets there is also increased potential for currency-induced credit risk in environments where sharp local currency devaluations could also negatively affect asset quality if loans have been granted in hard currency.

## FINANCIAL PERFORMANCE

Financial performance will likely be affected by lower lending volumes and higher costs of funding. Not all MFIs are able or willing to pass on higher costs of funding to their borrowers, and this is putting pressure on net interest margins (NIMs).

Profitability will likely also be affected by the following emerging trends:

- Higher impairment charges, as some MFIs deal with some worsening in asset quality.
- FX losses, as some MFIs either incur losses due to currency mismatches (caused by borrowing in foreign currency and lending in local currency), or incur high costs due to hedging arrangements in the context of some higher-than-usual currency volatility. In a worst case scenario, FX losses, if substantial and protracted enough, could lead to MFIs having trouble making repayments on FX debt.

## OUTLOOK

Different MFIs will fare differently in this more challenging economic and financial environment, depending also on country-specific issues.

Some MFIs will use this time of slower growth to tighten lending and liquidity management procedures, in particular, and build capacity in general – in a way a much needed “taking of stock” after several years of strong growth. With less funding available for growth, some MFIs may choose to “refocus” on their core lending activities, away from previous attempts to diversify into other products and other clients segments such as, for example, consumer loans and SME lending. Faced with funding constraints, some MFIs may also choose to “innovate” and tap into harder-to-reach customer funding sources (for example, in rural areas, in addition to focusing on urban deposit collections).

Many MFIs will revisit their strategy of “commercialisation and transformation”: this is partly driven by banking regulators, who in the current context may be more reluctant to issue banking and deposit-taking licences to “newcomers”, but also to MFIs’ rethinking their strategies, as they experience the downside of convergence risk. Indeed, the current crisis is exposing some MFIs to the risks of greater integration of microfinance in the formal banking sector, and arguably, those MFIs that

are further along the transformation curve, are those feeling the greatest shock to their business plan, performance and asset quality.

Additional constraints on MFI activities may also appear in the shape of increased political risk, as there may be increased probability of government intervention in the sector (e.g. interest rate caps, subsidised direct lending, etc) to reach poorer segments of the population in times of financial and economic turmoil.

On the other hand, experience drawn from the performance of banks and MFIs rated by Fitch in Bolivia around the time of the Bolivian financial crisis of 2000-2002 (see special Report, "The Microfinance Sector") shows that whilst asset quality and financial performance suffer an initial hit, in line with the broader financial system, MFI borrowers tend to bounce back more quickly than commercial bank borrowers. Ultimate losses for MFIs thus tend to be more limited than for commercial banks. This is primarily due to the fact that MFI borrowers tend to be micro entrepreneurs or small family businesses operating in the informal sector, which are more flexible in changing the profile of their economic activity. In addition, as consumers adjust to lower spending levels, there is often an increase in demand for these informal business services and products.

MFI performance and growth may also be supported by a growth in demand for their loans, as higher levels of unemployment in the formal economy as a result of economic downturn, lead to greater numbers of people turning to the informal small-scale business sector for employment. They may also be supported by lower levels of competition, as other financial providers experience funding constraints, and MFI borrowers enjoy less options for loans (consumer loans in particular).

Varying levels of support from microfinance networks, MIVs and IFIs in working with MFIs on refinancing and liquidity support will also likely have a differentiating impact.

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**1.** *The microfinance sector has an estimated customer base of more than 66 million borrowers globally, and total assets of more than USD35 billion at end-2007. Source: MixMarket 2007*

# AN INVESTOR'S PERSPECTIVE

**Source :** “ Microfinance, an asset class de-coupled from the credit crunch? An investor’s perspective”, Geert Peetermans, Chief Investment Officer, *November 2008*

[www.incofin.be](http://www.incofin.be)



For years microfinance investments have been marketed with the argument that the correlation between microfinance and the macro-economic environment is low, and in particular when compared to returns on global financial markets. With global markets in turmoil, and spill-over taking place in emerging markets thereby challenging the de-coupling of those markets, investors are keenly interested to understand if the de-coupling argument still holds true for the asset class of microfinance. In this note, which is based on Incofin’s large and firsthand experience in the microfinance sector, supplemented by many recent contacts throughout the field, we seek to address this topic, analyzing 5 dimensions of it. First it will look into the availability of funding in the industry; second the resilience of portfolio quality will be studied; third, the impact at the level of the micro-entrepreneur will be discussed; fourth, it will touch upon the changes of the context in which microfinance operates, and finally it will seek to give a perspective on the outlook of the future growth and profitability of microfinance.

## 1. THE FUNDING OF MICROFINANCE: ARE THE TAPS STILL OPEN?

Recent years saw an unprecedented increase of investment in microfinance, both as growth capital and re-financing lines. On top of this the flow of equity to the microfinance industry equally gained pace of late. Nowadays because of the focus on liquidity, investors, both local and international, are showing caution about making fresh investments. As in all investment fields, it leads to behavior that can be labeled “flight to quality”; having less supply of debt funding, many investors are reluctant to place it at Tier 2 and 3 MFIs but choose Tier 1 instead. This notwithstanding, there is no abundant supply for Tier 1 MFIs either. For the past few years Tier 1 MFIs had grown accustomed to highly liquid debt markets, allowing these MFIs to be overly selective on the parties to work with, and obtaining very favorable investment conditions. Moreover they grew accustomed to securing their funding well in advance, but the hardening of the credit crunch, especially in the months of September

and October of 2008 has resulted in several placements not coming to the market. MFIs from all over the world, big and small alike, saw part of their funding commitment disintegrate. In the case of Tier 1 MFIs integration in the local financial markets might exacerbate this, e.g. the larger Mexican MFIs that issued commercial paper onto the local stock market. This type of funding is increasingly hard to source. The first effect has been a scramble from MFIs to secure whatever liquidity is left in the market. As one fund manager at a recent meeting in London put it "Large MFIs that used to turn their back on us, are now receiving us in their Board Rooms". Local banks are still not accustomed to lend to MFIs without collateral (they are principally used for hedging Forex loans via back-to-back loans). To a certain extent some international banks, such as Standard Chartered bank, have also been lending to MFIs, and their commitment to the field appears to be intact. As far as MIVs (Microfinance Investment Vehicles) are concerned, one distinct feature of 2008 has been the slowdown of the creation of new MIVs. Existing MIVs do not show a uniform picture, some continue to demonstrate good inflow of fresh money, but not all of them do. All this has undoubtedly created a degree of scarcity of funding for MFIs. The good side of it is that it creates a bit of a pause in the growth cycle during which MFIs can re-focus their operations and prepare well for a next stage of expansion.

The MFIs' search for liquidity as we are seeing at present is not without danger. For one, MFIs could end up borrowing from speculative sources, taking up funds that are merely profit-seeking while not being respectful of the social values of the industry. However the purely financial investors are back to rare and few. Some regulators have even raised concern that "dirty money" might find its way to the industry. Though this risk should not be over-estimated, it cannot be excluded as MFIs sometimes operate in environments where dirty money is present (e.g. Colombia). This is why both regulators and investors in the past and present have been pressing MFIs to take the necessary precautions to implement anti moneylaundering and anti-terror financing measures. As far as we can see, MFIs have done well by sticking to the quality investors they had been relying on in the past, and have taken their reputations and that of their industry with great care.

Incofin, like most other fund managers, has been overwhelmed by demand of both existing clients and new MFI contacts that are looking to obtain the necessary funding to achieve their year 2008 targets and line up the funding for the first semester of 2009. Incofin has been quite successful in 2008 in attracting new investments and investors, which is not the case for all other fund managers, resulting in the possibility to strengthen its client relationships with MFIs in the market. Impulse and VDK, both being facilities managed by Incofin, have been churning out a lot of new loans in 2008. Coincidentally Impulse closed a capital increase and placement of notes on 30th September, and continues to be able to provide essential funding to the MFIs in the traditionally important final quarter of the year. This evidences Incofin has stayed very active in the market, and has made significant investments in 2008 (also the Rural Impulse Fund was allocated to MFIs in roughly half of its expected investment period, most of it being placed in 2008). It is a demonstration of a belief that good MFIs will persist, as good companies do, even in market downturns.

As for refinancing of MFIs' debt coming to maturity, we estimate this does not pose much danger. Most MFIs have very favorable maturity structures, in plenty of cases this has been strengthened by ample supply of subordinated debt that has been provided in the last stages of the credit bubble (e.g. Apoyo Integral from El Salvador where Impulse Fund is a shareholder, respects a capital adequacy ratio of 15% but additionally has contracted 2 long term subordinated loans, providing a very strong capital structure). This compares favorably to the balance sheet structure of entities that have collapsed during the credit crunch (e.g. Bear Stearns, Northern Rock). An element of danger might exist in the bullet loan structure that has often been applied to structure debt to MFIs, however it is widely mitigated. First of all, only MIVs tend to use bullet structures, and there is little likelihood that such specialized funds would be reluctant to renew loans when they come to maturity, especially when the terms of these roll-overs will be more favorable to the Lender (as there is more scarcity, the debt market is once more a sellers' market). Furthermore, only few structures (such as CDOs) have already come to market, that are not in a position to renew because they are destined to return the funds to their investors. Moreover since these CDOs/CLOs emerged in microfinance only in 2006, and typically they have a 5 year lifetime, their maturity still is at least 2 years ahead.

## 2. THE RESILIENCE OF PORTFOLIO QUALITY: SIGNALS FROM THE FIELD

A few exceptions excluded, asset quality remains very good across the board. Neither Mix Market data, rating agencies' latest assessments, nor the portfolios of Incofin's or other fund managers MFIs, show signs of -significant - deterioration. This again confirms that microfinance operates in a sort of insulation from macro-economic turbulences. Although it may be too early to assess the full impact of the global financial crisis, there can be no doubt MFIs have been operating in environments that for more than a year now have experienced steep increases in inflation, mostly linked to the surge of food and energy prices. Both these services are known to compose relatively large shares in the spending pattern of the lower income groups, and hence in the client universe of MFIs (e.g. a recent survey demonstrates that urban poor in India spend 36% of their income on food).

Only marginal increases of PAR (portfolio at risk) have been recorded. Especially those MFIs that have concentrated on the lower end of the market and that have stuck to micro-enterprise lending (with small loan amounts) have fared well. MFIs that ventured into consumer lending or housing loans tend to be confronted with more severe challenges, as these portfolios tend to deteriorate quicker when there is a general economic downturn. Also the higher end of microfinance business finance, such as small and especially medium sized enterprises, is more vulnerable. Often Tier 1 MFIs are the ones that have taken on these segments onto their loan

books as ways for diversifying, or simply to grow faster when supply of funds was plenty. This was clearly visible in the Eastern European and Central Asian regions.

Fortunately most MFIs, and the larger ones in particular, have developed very sound underwriting standards. They guarantee their portfolio quality remains solid, even when in the past years the pace of growth has been frenetic. A key feature of these underwriting practices is the existence of a strong relationship of the MFI with its customers. This relationship builds on profound knowledge of the customers' living conditions, and frequent contacts between the customer and the MFI staff. Such interaction is considered essential, and makes a microfinance relation fundamentally different from the relationship types that lay at the basis of the subprime crisis.

### 3. IMPACT AT THE LEVEL OF THE MICRO-ENTREPRENEUR

As micro-enterprises are usually active in the informal sector, they are not reflected in statistical data. As such there is no direct evidence of their relation to economic cycles. But certain features of microenterprises tend to keep that sector de-coupled from the macro-economic environment. Above all, it is a highly atomized and dynamic segment, a feature that is directly reflected in the portfolios of MFIs. Microentrepreneurs are developing a wide range of activities. Such diversification leads to limited vulnerability of the group as a whole. But also at the level of an individual micro-entrepreneur diversification exists, though in a very peculiar fashion. Typically, micro-entrepreneurs can quickly shift from one activity to another when they see there is evidence of a larger opportunity. And often they do, for instance to take advantage of certain cycles resulting from local setting and culture (e.g. to produce and sell items linked to local festivities such as Christmas and Mother's day celebrations in Latin America, or Hindu festivals in India). This adjustability also can lead a micro-business through an economic downturn as they can move away from affected sectors. Consequently disruption of income for reasons of decreased sales will only be temporary. It requires creativity and hard work, two characteristics that are commonly found in any micro-entrepreneur.

As for exposure to forex risk the picture differs from country to country. Whenever an economy is highly dollarized that feature would also be present in the micro-businesses. The ability to deal with this, as well as with inflation, is enhanced by the fact that micro-businesses are by and large characterized by quick rotation of working capital and high returns on investment.

Last but certainly not least, it has to be stressed micro-entrepreneurs are more often than not catering to basic needs such as inferior quality staple foods, the classic example of a Giffen good, of which demand is driven by poverty that makes their purchasers unable to afford superior foodstuffs. This results in a stronger resilience of micro-enterprises. The business purpose of a micro-enterprise is not just about unsatisfied wants, but about unfulfilled needs. Evidence of it has been witnessed in

countries from Peru to Indonesia, in particular during the Asian crisis at the end of the 90s that later spread to many of the emerging nations.

A particular new feature to the current conditions is the greater importance of remittances. Such remittances provide an extra income to many low income families, and recession in the US and European countries will cause these to slow down. Though hard to judge, it may have impacted a few countries and their microfinance industries, Morocco being cited as an example.

### 4. EVIDENCE OF CONTEXTUAL CHANGES

Risk of political influence has always been around in microfinance, and undoubtedly is up as a result of financial turmoil and its developments. In many countries of the developing world both local and national politicians have tried over the years to get influence on financial institutions, and MFIs have not been spared. In countries where MFIs have benefited from sector-specific regulation (e.g. Bolivia), the risk has been largely curtailed. In others it has not, and it explains to a certain extent why the development of microfinance is so different from one country to another. Take for instance Nicaragua, where current president Daniel Ortega is publicly attacking a sector of – largely unregulated – MFIs, causing people to attack MFI branches. Most critical in this behavior is the concurrent promotion of the Sandinista's own MFI Caruna. One would expect such interventions to provoke protest. However in a global environment that has seen governments from most of the developed world having to intervene in its financial systems, putting in fresh capital, nationalizing banks, and taking charge of financial institutions of different kinds, there is little moral authority left to prescribe the financial sector should best be left alone without government intervention. Incofin has always taken a conservative approach to address the issues of political risk, and has contracted insurance from the Belgian official credit insurance agency to cover the investments from all of its facilities against political risks, including expropriation.

With respect to the relationship of semi-public actors to the industry, last year's topical debate on "crowding out" by development finance institutions has all but gotten silent. It is clear that multilateral and national development finance institutions can have an utmost important role to play in current circumstances. The recent initiative of a "Global Microfinance Liquidity Facility" lead by several DFIs such as IFC and KfW, is a case in point. This initiative is expected to bring USD 500m of emergency funding to the sector. It cannot go unnoted however that the earlier debate increased the sensitivity of all actors to the need for public-private co-operation, and major actors in the field [DFI's, private Fund Managers, and rating agencies] are collaborating to form a common industry view on the nature of the Facility to be put in place.

## 5. OUTLOOK: STILL OF BUSINESS MODEL OF GROWTH AND PROFITABILITY?

Microfinance is an industry characterized by economies of scale that become apparent as from early stages of institutional development. In combination with a large un-served market demand, over the past decade fast development of MFIs took place throughout many regions in the world. Based on strong portfolio yields and improving efficiency MFIs were able to combine expansion with profitability, thereby generating a compelling case for investing in them with an attractive risk-return relation.

The outlook on these elements holds relation to several considerations. As we have explained, microenterprises can adjust under macro-economic stress and therefore continue to demand loans from the MFIs. Though plenty of emerging countries have done well because of commodities, we do not expect that the current trend of falling commodity prices is going to impact much on the growth or the portfolio quality of MFIs. It has to be noted that MFIs have enjoyed a very favorable environment for several years going. The ability of the some MFIs' management teams to handle a more severe crisis may be untested. So far, the internal ratings Incofin produces on the MFIs in its portfolios are holding up, basically because their portfolio at risk is still at healthy levels, profitability remains strong, and growth is still evident in 2008.

On the other hand, the feedback from the MFIs in the field tells us that many of them are tempering their growth ambitions for 2009. This is explained by two factors. First is the relative uncertainty about next year's funding, which is exacerbated by the prohibitive currency hedging cost that for the last couple of months have made the terms of hedging international debt very expensive, sometimes touching prohibitive levels. The second factor has to do with a tendency for deleveraging which has affected financial institutions everywhere. MFI's debt providers are looking at their capital adequacy ratios more cautiously than before, thereby triggering also a larger demand from MFIs for equity. What differentiates a strong MFI in any given country can be summarized as capital (access to equity), a diversified funding structure (even the largest ones are paying a lot of attention to this), and deposits (stable but with an implicit risk of run on deposits, as clients have a buffer but may want to make use of it and withdraw).

By and large, the outlook on growth is one of continued growth, but at a slower pace, especially in 2009. It is safe to conclude the potential for expansion remains, as the fundamental drivers of the un-served market and the profitability are intact. On the aspect of profitability it is important to mention that this does not rely on growth only, but mainly on the clients' ability to repay which we discussed earlier. Good repayment is the basis of strong income as well as improving cost structures. This is why MFIs are able to produce good returns both during expansion stage and at more mature levels.

As a side note, it is likely that the microfinance industry reshapes into a more oligopolistic form – which is the common form in the financial services industry – as concentration of assets will increase. This holds true for both the MIV and the MFI level. As mentioned earlier, not all the MIVs are continuing to grow, and the number of new MIVs has dropped, consequently generating a field of a limited number of leading MIVs (and leading Fund Managers). At the MFI level, smaller-sized MFIs are facing a much harder time attracting their funding. Especially MFIs that can attract savings will be in better conditions to continue growing. Hence the MFI industry in countries that have regulatory frameworks allowing MFIs to mobilize savings (e.g. Peru, Uganda) will outperform others.

## 6. CONCLUSIONS

In this note we have made the assessment of the impact of the credit crunch on microfinance as an asset class, seeking to provide an answer if it is de-coupled or not. Looking at the availability of funding in the industry, it bears no doubt contraction of credit is also taking place in microfinance and is mainly affecting the growth capital up to mid 2009, after which supply is expected to pick up. The resilience of micro-entrepreneurs on the other hand provides a very bright outlook on both the standard of maintaining excellent portfolio quality in MFIs, and the permanence of the potential for growth of the industry. Some concern exists with respect to the rise of political risks, but it is neither very generalized nor expected to pose huge impact on the industry as a whole. Finally, the business model of growth and profitability is considered to be robust, even if the growth is expected to slow down in the short run.

On the basis of the modest impact that this assessment brings forward, we come to the conclusion that the perception of microfinance as a non-correlated asset class still holds. Even if for the time being the growth is expected to take a temporary pause, the growth potential is intact, and the arguments for investing remain compelling, including in terms of excellent risk/return ratios when selecting and working with the right MFIs. Testifying to that, Incofin is confident it will be able to deliver excellent results in 2008 for all facilities in the Incofin Pool of Funds.

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# CGAP VIRTUAL CONFERENCE: MICROFINANCE AND THE FINANCIAL CRISIS

Source : CGAP, November 18-20, 2008

[www.cgap.org](http://www.cgap.org)



Last week, CGAP's virtual conference welcomed over 600 MFI managers, central bankers, investors and advisers from 34 countries. The 150 entries submitted provided a vivid and powerful report on how the financial crisis is impacting microfinance institutions and their poor clients. The dominos of the crisis – credit crunch, inflation, currency dislocations and global recession – are hitting microfinance in very different ways, depending on location, funding structure, financial state and the economic health of their clients. While many places seem unaffected today, there is little doubt that that there will be impact: integration of microfinance into the mainstream does have costs.

MFI managers from Mongolia, India, Rwanda, Mali and Pakistan reported on **clients** hurt by inflation and early signals of economic downturn: job losses in the US and Europe have already meant fewer remittances from relatives abroad. Client purchasing power has gone down and cash needs have gone up, causing savings to be withdrawn and sometimes straining repayments. Lessons

from previous financial crises show how some nimble clients might even benefit if, for example, they can adapt their inventory to meet newly frugal customer demands. MFIs whose customers sell commodities tend to fare better than MFIs providing consumer finance to salaried workers or cash-flow based small business lending. On the whole pressure on customers is expected to translate broadly into higher portfolio at risk.

The most immediate concern is how the global liquidity contraction will affect the cost and availability of funding to **non-deposit taking MFIs**. Money from both domestic and international banks is tighter, slower, more conservative and more expensive. Anecdotal evidence cites rate increases from 1% to 4% in Latin America and South and Central Asia, with some banks pulling out altogether. MFIs are anxious about meeting refinancing needs when loans from foreign banks and MIVs come due in 2009. Those borrowing in foreign currency fear the double hit of both increased interest rates and the costs of having to pay in hard currency with recently weakened local currencies. Declines in MFIs net income from fx losses were

cited in the 7%- 43 % range in the past few years, with one Latin MFI reported to have lost 75% in a single year. On top of all this inflation means operating costs are rising, and these costs can't always be passed on to clients.

**Institutional investors** in microfinance are not seeing significant retail redemptions, but they do expect fund-raising in the coming months to be a tougher sell. Retail investors are cautious and loath to realize losses in existing investments in order to make money available for new microfinance investments. Development Finance Institutions have seen demand for funds from MFIs rise dramatically and many are up to their lending limits to MFIs. Several are planning a joint emergency liquidity facility, which would be welcome if appropriately structured.

The strongest message from the conference was that **deposit taking MFIs** are well-insulated from refinancing risks. The many savings-led African institutions have little need for external funds. . That said, most deposit taking MFIs mobilize larger deposits from non-poor customers and these may be more sensitive to the economic downturn. In a world where communications are global and news travels fast and far, there is also a fear that bank failures in the US and Europe will lead to a loss of confidence in local banks and a run on deposits. Large scale savings withdrawals have only occurred in isolated cases where other factors were already at play beyond the financial crisis.

Advice to **MFIs** from conference participants included: increase reserves, cut back on growth and focus on portfolio quality, make sure loan officers are informed and attentive to clients needs, and communicate early and often with lenders and investors. MFIs were also warned that cutting back on lending can undermine repayment; if customers think they won't get a new loan, why repay the old one? Longer term counsel focused on MFIs accelerating the move to become licensed to mobilize deposits, or at least borrowing locally, improving asset and liability management, consolidating or diversifying funding sources to a manageable but balanced number, and ensuring sound codes of conduct on a customer education, advice and protection. Many of these changes, participants cautioned, will take time, money and expertise that many MFIs lack and will need to build.

Overreaction by **policymakers** was a worry for many. There were concerns that regulators might become excessively conservative (about new licenses for deposit taking, capital requirements or branch expansion). Well-intentioned governments may do things to alleviate the crisis effects that hurt financial access in the long run. These might include debt forgiveness programs, soft loan schemes and unsustainably low interest rate caps. At a minimum, participants felt that progress on helpful policies that stimulate access would falter as governments' attention focuses on the urgency of stability. On the bright side, some felt that the crisis might advance the cause of helpful deposit taking legislation. Clearly, there is a need to demonstrate to policy makers that inclusion and stability go hand in hand.

Several suggestions for **donors** were offered. These included ensuring that funding catalyzes local funding, promoting transformation of NBFIs, and making sure that donors stand by long time clients to help reschedule loans, recapitalize, or provide emergency funding.

But there was optimism amid the anxiety. Perhaps 'creative destruction' may have long term benefits for access to finance. Some markets had become overheated, with sensational growth rates, softening underwriting standards and deteriorating risk-return trade-offs. Slower growth, tighter credit, more conservative policies, better products and even consolidation of weaker institutions into stronger ones may be beneficial in the long run. The crisis may be a booster to actually implement consumer protection policies. And at the very least, the crisis has clearly illustrated the value of adopting a deposit-led approach that aims to build access to domestic, local currency financing.

Thank you all for your observations and wise counsel. We will do our best to ensure that your input is shared with all those who can help MFIs and their clients weather the financial and economic storms ahead and emerge stronger and healthier than before.

## 1. What impact is the crisis having?

### Caveat

Generally, most conference participants were eager to discuss the impacts of the financial crisis, but several participants warned against attributing all MFI issues to the financial crisis. Kelly Hattel, echoing Mohammed Khaled, mentioned the need for the sector not to "be too quick in establishing direct causality between the current financial/economic crisis and MFI problems which might have been pre-existing conditions."

Others also cautioned against making broad generalizations from very specific experiences. Chimaobi Agwu from Nigeria wrote: "Talking about the impact of the fi-

ancial crisis on MFI's and their clients... depends on the economy in question, the operating and funding structure adopted by the MFI and proactive measures put in place by the board and management."

### General Impacts on clients

Most participants agreed that client impact is varied and not yet visible in most areas. It is expected that rising inflation (especially for food) and other fuel and commodity price volatility, combined with the effects of recession – namely decreased demand for microenterprise products and decreased remittance flows—would be the main cause of client problems going forward.

Gerelmaa Yu from XacBank reported that in Mongolia, “[m]any of the clients of cooperatives are herders, who have income from selling of cashmere, meat or skin, market price of which has declined during the last months. With yearly inflation of around 30% the living expenses of herders like all people increased significantly. In addition the liquidity shortage has led other banks to stop or restrict loan disbursements in remote areas.”

In Pakistan, Syed Moshin Ahmed of the Pakistan Microfinance Network commented that: “anecdotal evidence suggests that MF clients who are economically active have been either positively impacted in the first generation affect of inflation or remained neutral. The only group that has been affected is salaried urban class and people who have taken loan for consumption.”

N. Srinivasan also cited the effects from lower lending by MFIs: “New clients have been asked to put on hold their business plans by MFIs in many places. Interest rates are being reset. Many clients might opt for high interest options from informal sources.”

Larry Reed from Opportunity International reminded participants that client impact occurred in previous crises. He shared his experiences from past crisis describing scenarios where MFI clients, who were microentrepreneurs, benefited from an economic downturn. He remembered prices going “up on all items, and especially on basic commodities like food.” As their traditional consumer base spent more on basic commodities, microentrepreneurs specializing in basic commodities flourished. Microentrepreneurs focusing on higher end items didn’t do as well, unless they were able to capture higher end consumers who “could no longer afford to shop in the department stores where they normally shopped.” Microentrepreneurs/clients who were able to take advantage of these market changes were able to “maintain their incomes and pay back their loans,” provided that new entrants didn’t flood the market.

### General Impacts on MFIs

Many respondents are seeing the effects from the crisis on their markets. Others are expecting delayed impact. Reports from local MFIs varied according to region and type of institution. For example, West African respondents from Benin and Côte d’Ivoire stressed the immediacy of the food crisis, while in MENA, most MFIs have not yet felt the impact of the financial crisis. Many participants from Mexico to the Philippines noted that deposit taking institutions are holding up better than more credit-focused institutions.

Philip Asare of Opportunity/Ghana wrote that the impact of the crisis on MFIs “will be dependent on the extent to which their host countries are integrated to the international financial market ...[but]... no matter the degree of linkage, MFIs are likely to suffer one way or the other.”

Laura Burnhill from ACCION also commented on the geographic differences in impact: “Much as the impact of the crisis on mainstream economies and financial sectors continues to spread unevenly, so the impact of the global meltdown on microfinance varies by region. Eastern European MFIs seem to be experiencing deposit runoffs or reductions, whilst Latin American MFIs are reporting more cancelled / non-renewed lines and/or delayed disbursements. Asia and Africa each face different challenges as well. One thing seems certain though, despite falling oil prices, commodity prices remain high, credit has been sharply curtailed on many levels and life at the bottom of the pyramid is more squeezed than ever.”

Syed Mohsin Ahmed, giving a bird’s eye view of the situation from Pakistan, described the interplay between the effects of the food and fuel crisis, the financial crisis and geo-political variables: “In Pakistan we have our own set of unique crisis though largely insulated from the global financial market meltdown but heavily affected by the recent boom in oil and commodity prices. The above factors along with political and geo-political problems have led to a macroeconomic imbalance in the shape of high fiscal and current account deficit. With inflation, headline at 25% and core at 18.3%, spiking northwards the central bank has been taking policy measures to suck access liquidity from the market and making rupee dearer.”

“**D**omestic deposits stand to decline with declining economic activities. Significant number of developing countries finance significant portions of their budgets with foreign aid. As the donors face the heat, their ability to help will definitely decline. Declined government budgets will imply declined expenditure and investments. Incomes will be impacted and domestic savings will shrink. Added to the above is the possibility of remittances from relatives from abroad to decline as some of our relatives in the developed countries face job losses.”

Philip Asare of Opportunity/Ghana

Cordaid, gathering a group of 15 MFIs, concluded that the impacts of the financial crisis on the operations of MFIs are: (1) reduced

demand for loans as client businesses suffer (2) cost of capital has increased – costs that cannot be passed on to clients (3) reduced growth in the sector due to the liquidity crunch and (4) an increase in short-term loans to finance portfolios. The liquidity crunch will come as there is (1) a decrease in international investment flows (2) a decrease in loans from local banks, especially those with longer tenors (3) foreign exchange losses (4) lowered remittances (5) significant withdrawals of deposits and savings. They also believed that “emerging, small and medium and weaker MFIs are most affected.... [and there is] potential that larger MFIs will acquire small, weaker ones, with potential mission drift.”

Overall, participants identified the following impacts (each discussed in the following section): - Liquidity crunch - Risk of increased PAR - Foreign currency exposure is an added risk and cost - Other risks to MFIs (commercial bank failure, drop in remittance fees) - Investor inflows - Policy implications.

## THE LIQUIDITY CRUNCH

Many participants commented that deposit taking MFIs are less exposed to liquidity squeezes. In general most saw material evidence of liquidity tightening, especially on non-deposit taking MFIs that fund themselves primarily through foreign debt. In many cases, no changes were seen yet, but there is a great deal of anxiety about what will happen in 2009.

Martin Holtmann summarized the sentiment across the industry:

"(1) Refinancing risks for MFIs that are mostly funded from external sources such as DFIs, MIVs and local or international financial institutions. While liquidity seems fine through the end of 2008, some organizations are likely to experience problems in refinancing their debt obligations through 2009, especially if they have accepted "hot money" from fickle investors.

(2) Liquidity risk for deposit taking institutions. Historically, deposit taking institutions have been more insulated from funding problems. However, in the current situation, there are likely to be (hopefully isolated) crises of confidence that could affect some MFIs."

### Increased cost and decreased availability of capital from banks and investors

Participants generally cited the increased cost and decreased availability of capital as the biggest challenge facing MFIs. Alex Silva, of the Emergency Liquidity Facility/Omtrix, explained that not all MFIs will be affected equally: "Different types of institutions differ in their vulnerability to the crisis depending on their funding structure. NGOs, in a weaker position if international flows, in particular lending from MIVs, are curtailed."

In West and Central Africa, however, we heard from several participants (Karara Charles & Diane Bizimana from Rwanda and Burundi respectively) that there has been little impact thus far, principally because MFIs are deposit-based. Chimaobi James Agwu from IMFB/Nigeria cited: "that the 800 microfinance banks are unperturbed by the global happenings due to the viable policy environment and the fact that we are all savings and deposit led with less dependence on government, bank and external funding."

In contrast, in Central America where many MFIs are NGOs that "have their funding structure concentrated in loans from international sources, local second tier lending institutions, and regional banks," these NGOs "are in a weaker position if international flows, in particular lending from MIVs, are curtailed." (Alex Silva/ Emergency Liquidity Facility-Omtrix)

Syed Moshin Ahmed reported that, in Pakistan, the "cost of borrowing has jumped by almost 50%, "liquidity from domestic capital markets has become tighter" and "financing from international sources, especially debt is not allowed by the central bank because of reserve pressures." Peter Marchetti, FDL/Nicaragua, shared that one of his funders is increasing interest rates on loans by 2%, while Chuon Sopha, TPC/Cambodia, has seen a 1% increase in capital costs.

In India, N. Srinivasan reported that: "In the last sixty days, the liquidity constraints and the heightened perception of risk has pushed up the rates further (by as much as 200 to 300 basis points). If the MFI is willing to pay this higher rate, it does not mean that loans are available." N. Jeyaseelan of Hand in Hand/Tamilnadu shared his observation that "banks are taking more time to lend to MFIs.

From Romania, George Staicu reported that "an MFI in Kosovo had to postpone loan disbursements....and take drastic measures to restrict some of its administrative expenditures. There were days when the MFI's bank account had a balance of just a couple hundreds Euro while the approved loan applications amounting thousands of Euro were on the «waiting list».

Els Boerhof, of Goodwell Investments BV, saw this same impact from an investor perspective: "Although India has a strong domestic capital market, liquidity is becoming tighter, especially for smaller MFIs. For us as an equity investor this means that we have to spend more time with (potential) investees and funders to work on complete financing package, which includes debt as well. The Central Bank in India is taking action and the government banks are trying to fill the gap which the commercial banks are leaving behind."

### Risk of withdrawals of deposits

We also received a number of messages about the risk of bank runs. For example, Daniel Mensah from MicroBusiness for Health in Ghana reported that clients are withdrawing savings from credit unions to cover consumption needs. He wrote: "at recent meeting of some of the credit union executives, it was reported that the number of members taking loans or withdrawing their savings is going up." Laura Burnhill mentioned that "Eastern European MFIs seem to be experiencing deposit runoffs or reductions" and Marc Breij from Cordaid mentioned that a meeting of 15 MFIs believed there was going to be a "significant amount of withdrawals of deposits and savings (in cooperatives)....and [f]light into more 'secure' lenders and assets (gold)."

Erik Heinen of Oikocredit wrote, "What we have been seeing is that especially MFIs that depend a lot on savings deposits face the risk of a run on the institution. 'Trust comes on foot, but leaves on horseback' is an expression we hear a lot these days in the Netherlands and it is true for savings. But so far, we have seen very few MFIs that faced a crisis of trust."

## INCREASED RISK OF PAR

### Incentives to repay may be undermined

Participants noticed that they were seeing clients, not expecting MFIs to be able to continue to disburse loans as needed, losing their incentive to repay.

Laurence Uwambaje from the National Bank of Rwanda, commented that: "The financial crisis reduced the external funds granted to MFIs, and so that reduced the disbursement of loans to the MFIs' clients. This affected the clients confidence about the MFIs' ability to disburse loans to them as needed. It reduced also the

loans portfolio quality because some clients decided to not repay the loans granted to them because they do not hope to receive the next loans. So as response to this, MFI has to do more in managing and increasing effort on monitoring the loans portfolio quality.” Chuon Sophal agreed and stated that his Cambodian MFI’s “PAR ratio increased from 0.63% in Aug, to 0.70% in Sep and to 0.95% in Oct 2008.”

### Ability to repay is threatened in some places.

Participants saw inflation and the global economic slowdown as the key risks to client repayment ability.

Many participants, particularly those from MFIs, referred to the increased vulnerability of clients due to the food and fuel crisis and other inflationary pressures. As Fahan Bamba of AE&I Abidjan wrote: “The actual financial crisis may just be an additional crisis to the existing crisis such as social, political and food crisis.”

Munhmandah Ochirsharav of Xacbank, Mongolia agreed: “Commodities and fuel prices are increasing dramatically during the last few months here, there’s no certain view that our clients, especially small and micro-entrepreneurs are vulnerable on loan repayment.” Gerelmaa Yu, his colleague, added: “Many of the clients of cooperatives are herders, who have income from selling of cashmere, meat or skin, market price of which has declined during the last months. With yearly inflation of around 30% the living expenses of herders like all people increased significantly.”

The global economic slowdown, on the other hand, will affect client businesses and remittance flows. While many microenterprises are subsistence activities that will be unaffected or even boosted by economic downturn, others may suffer. Martin Holtmann, IFC, noted that MFIs with heavy consumer lending or focus on SMEs (which tend to have bigger repayment problems when the real economy suffers) are the ones most likely to suffer. Alex Silva of ELF also wrote that: “[a]n eventual spreading of the financial crisis to the local economies would have an impact on the income generation capacity of the MFIs’ respective clients which could eventually derive in an increase in portfolio arrears.”

The slowdown could also mean a slow down in remittance flows to clients. Adama Kodio, of Milfed/Mali, commented: “A further impact that the financial crisis could have on MFIs in West Africa is the recession which will have a negative impact on remittances. Some MFIs capture remittances as medium term savings. Also, a large part of credits given out by these MFIs are consumption loans for relatives waiting for remittances of migrants having left the country recently.”

## FOREIGN CURRENCY EXPOSURE IS AN ADDED RISK COST

Overall it appears that MFIs that rely on savings or are borrowing in local currency are less exposed than those borrowing in dollars. Julie Abrams from Microfinance Analytics reminded participants of the impact of unhedged foreign exchange exposure in past years, including a Latin American MFI that experienced “a 75% decline in net income due to FX losses in a single year” and two Eastern European MFIs that experienced “a 14% drop and a 43% drop” respectively.

Mark Flaming commented that: “It seems reasonable to expect that the impact of the current crisis will fall hardest on non-deposit taking MFIs that fund themselves primarily with foreign debt.” Peter van Dijk underlined the extent of the risk: “To accentuate, in some regions and countries over 70% of (impressive) growth of MFIs comes from foreign debt.”

**W**hat MFIs can do to mitigate liquidity risks, my proposition is thus: *Be savings led and inspire your clients to save, match savings with loans, avoid funding mismatch, develop an array of savings and deposit products, be market and fund driven, never depend on bank loans, rely less on donor and oversee funds, do not compete with commercial banks, avoid high volume loans, lend short and lend small, slow down on lending-race up to savings.”*

C.J. Agwu, Agric Banking FMFB, Lagos Nigeria.

## OTHER RISKS TO MFIS MAY EMERGE

Julie Abrams pointed out that banks servicing MFIs may also be at risk of failure: “Another area of risk to MFIs that should be considered is risk of bank failure in which an MFI either holds substantial concentration of assets (the MFI’s deposits, CDs, investments), and/or liabilities (debt and other forms of credit). In an earlier country-specific economic crisis that included severe currency devaluation, an MFI held 18% of its cash, 91% of its investments, and 32% of its short-term funding liabilities in a single bank that went under, despite the fact that it was considered one of the nation’s largest banks and presumed to be among the most secure.”

Adama Kodio, of Milfed/Mali, also noted that the downturn in remittances will affect MFIs that provide money transfer services and rely on commissions from such services as income.

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## INVESTORS INFLOWS TO MICROFINANCE INVESTMENT VEHICLES SEEM CAUTIOUS BUT STEADY

On the investor side, Microvest and Calvert have seen their investor bases remain constant. Cecilia Beirne from MicroVest wrote, “Everyone is increasingly cautious – to free up capital to invest in mf private equity funds

sometimes requires liquidation of existing investments at a substantial loss – emotionally difficult regardless of the social imperative. But so far we have not experienced a slow down, especially with respect to equity.”

Eliza Erikson from Calvert, has also not seen large redemptions, and Calvert’s investors “seem content to stay put for a number of reasons: (1) the microfinance/community investment portion is a relatively small piece of their overall portfolio; (2) we provide a fixed return, which provides some stability; and (3) they feel as if lower-income populations are likely to need help now more than ever.” However, she also warned that “while the socially-responsible retail investor base may stay stable, the capital from larger retail investors may not increase in the immediate future.”

Erik Heinen from Oikocredit, on the other hand, is experiencing a slowdown in inflow capital. As a result, Oikocredit has changed its investment priorities: “With capital becoming scarce due to excess demand, we have prioritized our lending focusing on tier 2 and tier 3 institutions having difficulty to gain access to international capital. We aimed even more for smaller MFIs and MFIs from rural areas. And we became more selective in committing capital.”

Marc Breij of Cordaid has had a similar experience. Cordaid has experienced a: “(1) Decrease in investment flows from private, social and commercial investors. This prohibits Cordaid from initiating new investment funds (where we want to play a catalyst role) (2) Decrease in local funding. We see banks originally committing to lever our investment simply withdrawn or increase pricing making any lending unattractive) (3) Increase in the number of defaults / rescheduling requests as a result of (i) lack of local funding (ii) eroding margins as increasing interest rates cannot be passed onto clients.”

### **Donor flows may shrink and be diverted to other sectors**

Overall aid budgets are likely to shrink in coming years and the priority for donors may shift to agriculture and other emergency support. Xavier Reille notes that “[f]or-

ign aid has dropped by 8.4% in 2007 and we can expect more aggressive cuts in 2008 and 2009.”

Alice Brooks/USAID-Bolivia commented that: “Donors with a varied portfolio of economic growth activities including support to the microfinance sector are also examining whether they should reshuffle their portfolio to best protect the poor from the crisis. The widely hailed robust, anti-cyclical characteristics of the MF sector may actually work against the sector in this instance, as some donors may reduce support to this sector under the hypothesis that MFIs are better placed to take care of themselves as the crisis unfolds, whereas the most vulnerable sectors will soon be desperately needing increased support.”

## **POLICY IMPLICATIONS MAY HELP OR HURT**

The crisis has the potential to trigger changes in regulation, either by distracting regulators from implementing helpful policies or by encouraging them to take more conservative/restrictive approaches to microfinance.

Claudio Gonzalez-Vega/OSU cited other ways short term government actions could harm microfinance in the long run: “The risks include interest-rate ceilings, mass loan forgiveness, the encouragement of delinquent borrower associations, the development of credit programs in government agencies that lack financial expertise, and the like. Several of these actions are already observed in a number of Latin American countries.

On the positive side, the relative stability of deposit taking MFIs may motivate transformation or adaptation of regulatory frameworks allowing strong performing NGOs to mobilize deposits (e.g. current initiatives in Bolivia).”

## 2. What can the microfinance industry do?

### **MFIS**

Overall, participants emphasized the need for MFIs to systematically deal with the effects of the financial crisis. They shared experiences and advice.

Mark Breij of Cordaid outlined suggestions for MFIs wanting to “maintain their operating margins and strengthen their operations during the crisis...:

- Tighten credit evaluation and utilization check
- Commit to simple lifestyle – spending for wants and needs;
- Adhere to code of ethics; minimize competition in the sector;
- Review portfolio; best time to take stock
- Sustain confidence of MF clients – visibility of the

leadership of the MFI be more transparent; be in touch with the various needs of clients; opportunity for them

- Lever with government and NGOs; get other investors to get in
- Restrict services, however, health and education are priority needs of families – MFIs need to address;
- Recognize the risk / loss upfront than wait for the loss to happen.”

Julia Abakaeva from CGAP had four suggestions: (1) increasing loan portfolio monitoring (2) focusing on portfolio quality rather than growth (3) working with shareholders on short-term liquidity issues and funding plans (4) as a last resort, look at consolidation/merger options with other MFIs.

## Dealing with liquidity crunch

Many responders advised that MFIs focus their efforts on developing local funding and local deposits. MFIs were also advised to leverage existing funding conditions by diversifying funding sources (deposits and equity and maturities). If borrowing in foreign currency, some suggested MFIs to hedge either explicitly by buying currency swaps or implicitly by depositing money with a local bank and using it as collateral for the loan portfolio. Finally, a number of respondents encouraged MFIs to maintain a small and manageable group of funders.

Judith Brandsma commented that: "Non-bank MFIs may also need to strengthen their equity position not only because it may be depleted due to increased provisioning but probably also to ensure continued access to funding whether from IFIs, social- commercial funds or local financiers. The - by some of you - observed 'trend' that IFIs and other financiers appear to be reluctant or unable to lend (or renew loans) also poses interesting questions regarding the sustainability of the non-bank business model."

Judith Brandsma also raised a note of caution to those who were particularly enthusiastic about encouraging MFIs to develop savings products and to work with regulators to develop MFI savings agendas. "Can I please ask for caution, for the following reasons: 1. Savings are other (poor) people's money. 2. Savings are all about confidence. 3. Savings are a service (and yes also a source of funds). Mobilizing savings requires a whole new set of skills, systems and procedures and the decision to mobilize savings should not be taken lightly."

## Reduce risk/Sticking to the basics

Chuon Sophal from TPC in Cambodia was among the participants who advised MFIs to improve internal discipline. He wrote, "The credit agents must be trained about the current situation of the financial crisis, enhancing them to respect lending practices, plan of the institution, being not aggressive in lending, and spending more time in doing qualitative and quantitative analysis before making decisions. To encourage the credit agent to follow up ... when there is a signal of a problem loan and taking appropriate measures to solve it."

## Slow growth

Oyungerel Byambajav of Xacbank in Mongolia shared: "The crisis pushed us to revise our growth targets downward and more concentrate on portfolio quality and restrict consumption loans as the salaried people are considered riskier to be affected by the crisis."

TPC of Cambodia has also taken a similar approach. Chuon Sophal explained: "TPC has to maintain its own current strategy to not be aggressive in lending. To manage the disbursement growth rate per CA, moderating the clients recruiting plan per CA, and reducing the size of the loans in according to the availability of MFI 's liquidity plan."

## Maintain the social mission

N. Srinivasan commented that: "From a context of social performance, ensuring that the clients get sustained service without disruption is the most socially relevant service that an MFI could offer in the current context.

Borrower counseling on how much of what to take for what purpose is a necessity. We do not want the industry to push credit and look at the portfolio as «sub-prime» months later. This would push up cost of operations and clients may have to pay more. They may not mind if we assure them that we would stay in the market even in a crisis!"

## INVESTORS

### Promote savings

Martin Holtmann, IFC, advised donors on what they can do: "I believe that the DFIs ought to focus on helping to mobilize local funding for MFIs through instruments such as partial credit guarantees, and that they need to encourage MFIs to mobilize local deposits. In the long run, that will be the soundest and most sustainable way for microfinance to grow."

Karla Brom agreed, but added an additional comment for funders: "The liquidity issue does point to the need for long term stable client deposits but also a reasonable set of funders. It is important to not be over reliant on any one source of funding lest it go away, but over diversification has its costs as well in terms of time spent managing relationships, reporting, etc."

### Being flexible and focused on your mission

Mark Breij of Cordaid wrote: "We would seriously endorse a commitment by all investors (either commercial / social ) not to walk away, seek 'bilateral' opt out solutions but to arrange for a collective response, albeit at investee level; no need for large bail out plans)."

Erik Heinen described the approach Oikocredit has been taking: "Scaling down our commitments towards MFIs, especially the top-tier ones that have not been our long time partner yet. We also lowered the average amount per transaction so as to spread our resources more widely over our partners:

- Requesting our in-country staff to increase monitoring efforts
- Cutting of investments and putting some of our plans for geographical expansion in the fridge
- Inviting institutional investors to step into Fund Management agreements where Oikocredit through its global network takes care that the capital comes with high social performance and a sustainable financial return."

## POLICY MAKERS

### Avoid over-reaction

Kathryn Imboden and Claudio Gonzalez-Vega raised some policy considerations for participants, including warnings against the over-reaction to the crisis by regulators. Well intentioned short term support measures could potentially contradict sound practice. Kathryn Imboden wrote: "Over the short-, medium- and long-term, it will be critical to watch risk profiles, performance and regulatory responses, engaging with policy makers to be sure that regulated MFIs are treated as they should

be under a sound and access-friendly approach and that the message that financial inclusion can indeed be synonymous with stability is reinforced.”

Claudio Gonzalez-Vega/OSU agreed: “I much agree with Kathryn’s warnings about potentially costly over-reactions of regulators and about their limited ability to recognize both the differences in the resilience of microfinance clients (compared to traditional bank clients or the clients of consumer credit financieras) and the differences in the ability of lending technologies based on personal contact with the client and the value of their relationship with the MFI (relationship lending)...These are times when the ability of regulators to separate different types of risks is critical. Otherwise, incorrect regulatory norms may prevent microfinance from playing its counter-cyclical (less pro-cyclical) role. Times of crisis may be the worst time for changing regulation.”

### Promote deposit-taking

Others raised the potential policy implications of becoming deposit taking institutions. Peter Marchetti reminded us that “[a]ll of us microfinance managers want to

increase our domestic funding, but doing that - becoming regulated - depends on a long series of preconditions.”

Lauren Burnhill of ACCION commented on the need for deposit insurance: “Deposit protection for poor savers would seem to be an element of ‘consumer protection’ that we should think about going forward.”

Kathryn Imboden added: “The evidence in our exchanges thus far, that savings based institutions have fared better, only reinforces the message that savings are important. Prudential regulation of deposit-taking microfinance institutions has been generally built on sound principles. Over the short-, medium and long-term, it will be critical to watch risk profiles, performance and regulatory responses, engaging with policy makers to be sure that regulated MFIs are treated as they should be under a sound and access-friendly approach and that the message that financial inclusion can indeed be synonymous with stability is reinforced.”

## 3. The crisis as opportunity? Going forward

Some participants raised the point that MFIs and the industry itself could find opportunities within this crisis. Potentially, it could force MFIs to grow more conservatively or consolidate while improving capacity and internal controls. Additionally a few participants felt that the crisis provided an opportunity to focus on consumer protection.

### New products

Franz Gomez-Soto from USAID funded MIDAS program in Columbia highlighted the fact that: “[t]he liquidity problem may become the right incentive for regulated MFIs to develop and launch more attractive savings products. The non-regulated MFIs may decide to become regulated institutions in order to get a more stable source of funding.”

### Greater conservatism, better risk management, stronger systems

There were several participants who thought that slower growth would mean improved risk management and an opportunity to build stronger systems. Cecelia Beirne/Micro-Vest wrote: “On the risk side, the crisis does present an opportunity for strengthening the industry as a whole. While we all applauded the impressive growth rates of MFIs, one wonders if the infrastructure could have kept up with this rate of growth indefinitely...Are we building a «bubble» of overindebtedness? If so, then a slowdown in growth will provide the opportunity to reconsider the basics of underwriting.” Els Boerhof/Goodwell Investments commented: “I am not so confident that all MFI’s have their ALM in order and I hope the present crisis will demonstrate the importance of it.”

Franz Gomez-Soto from MIDAS Program (USAID - Colombia) also chimed in: “The funding issue will reduce the MFIs loan portfolio rate of growth, which reduces the growth risk. This type of risk arises from an MFI experiencing a rapid growth without having a strong internal control system which ultimately leads to a greater delinquency rate... Under a period of crisis, lending should be done in a more conservative fashion. So MFIs will need to improve their screening system. Moreover, they will need to improve their MIS in order to have more detailed information to keep track of the situation. In summary, this is a good time for improving their risk management system.”

### Consolidation and “flight to quality”

Kate McKee from CGAP wrote about the potential for increasing portfolio quality (due to the crisis) to create an opportunity for “alternative” or “development lenders. Additionally she wrote, “Central banks and regulators using the credit crunch as a mechanism to

Mohammed Khaled from CGAP provided a useful wrap up of what he saw as opportunities for the industry from the crisis:

- Regulated MFIs develop and launch more attractive savings products
- Some of the non-regulated MFIs become regulated institutions in order to get a more stable source of funding which will lead to more poor people have access to different savings products.
- Governments develop deposit insurance schemes which cover regulated MFIs and their clients
- Better Consumer Protection Schemes/Regulations are in place
- MFIs develop stronger internal control systems and a healthier growth rate
- MFIs develop a better screening and risk management systems
- Credit bureaus are more common and MFIs are part of that
- MFIs are more efficient and their operational cost is lower
- Donor coordination is better and their Aid Effectiveness is higher
- MFIs show that they are a better investment option than many of the other options there.

reduce their headaches by letting consolidation happen, etc.). In the microfinance sector, we might speculate that the big will get bigger, deposit-takers will fare better, and investors, donors and regulators will focus more energy on ensuring that bigger institutions (which can also pose more systemic risk if they flounder) weather the storm.”

Barbara Magnoni cautioned the industry to adjust how some MFIs have operated. “This is an opportunity for the sector to consolidate in some countries, or at least to sit tight and reduce growth projections until the outlook is more clear and portfolios are healthier...” Guy Dionne/UNDP BiH agreed: “The top microfinance institutions will see an opportunity in purchasing portions of weaker portfolios at discounted prices.”

On the other side, Rich Rosenberg of CGAP commented: “Will the industry produce consolidation? MFI managers tend to be highly resistant to mergers/takeovers. Maybe they are no different from other managers this way. But in MFIs that don't have a substantial amount of equity owned by commercially orientated there is often little effective counterweight to balance the managers' incentive to keep control of their empires.”

## Responsible Finance/Consumer Protection

N.Srinivasan's remarks were representative of those discussing responsible finance: “From a context of social performance, ensuring that the clients get sustained service without disruption is the most socially relevant service that an MFI could offer in the current context. Borrower counseling on how much of what to take for what purpose is a necessity. We do not want the industry to push credit and look at the portfolio as «sub-prime» months later. This would push up cost of operations and clients may have to pay more. They may not mind if we assure them that we would stay in the market even in a crisis!”

## Increased demand

Ali Ghezawi of the Development and Employment Fund in Jordan was the first participant to remark about increased demand for loans: “I would like to say that the financial crisis could have positive outcomes for Microfinance institutions. Our data and analysis suggest that we are seeing more business as a result of the crisis (especially form of quality startup projects).”

# 4. Questions for further reflection

Many participants raised issues that weren't fully discussed during the conference but are worthy of further reflection and discussion. Below are some of these open questions.

## Relative impact of crisis on MFIs

Judith Brandsma: “[W]ould it be correct to assume that MFIs that also engage in consumer lending would already today feel the impact on the loan portfolio quality, especially if the consumer loans are made in foreign currency? Would the loan portfolio quality of MFIs in those countries that do not engage (or do not substantially engage) in consumer lending be less affected?”

J.D. Von Pischke: “Is there any evidence that some microentrepreneurs are getting more business from people in higher brackets who move down-market as their household budgets shrink?”

Els Boerhof/Goodwell Investments BV on group loans: “When the crisis hits groups...what will happen? Will problems submerge later because a loyal group is hiding internal problems too much? Or will they be able to settle the problem because they are a group? Are MFI's who provide individual loans in a better position to monitor portfolio quality because repayment problems become visible immediately?”

## Solutions for MFIs

J.D. Von Pischke: “Are MFIs adjusting their approaches to delinquency? Microentrepreneurs selling «high end» goods (e.g. cosmetics or dental work that can be deferred) would presumably be doing less well than microentrepreneurs who deal in daily necessities such as matches and chipatis. How can MFIs tailor their work-outs based on the different cash flows of their clients' businesses?”

## The Role of Donors and Investors

Judith Brandsma: “When, how and under what circumstances to bail-out? ...What are the terms and conditions for the bail-out?... If IFIs and other financiers end up owning more (quasi-) equity than they care for - what would their exit policy be?”

Eric Duflos/CGAP: “How are Apexes reacting to the financial crisis? Are they still lending to MFIs?”

Peter van Dijk: “Does experience with credit guarantees provided by foreign donors especially demonstrate a bridging effect to attract, in the longer term and as an objective, local funders (banks, depositors)?”

Kate McKee/CGAP: “How are retail investors (ranging from more sophisticated individuals supporting microfinance as one part of their social investing portfolio vs. newer and less sophisticated investors of the kiva.org type) reacting to the changing financial and market circumstances?”

# THE MESSAGE OF INTERNATIONAL FINANCIAL EXPERTS AND DIGNITARIES

**Source:** "Financial Services for the World's Poor in the Face of Global Financial Crisis on Agenda at Meeting of International Financial Experts and Dignitaries", PRWEB, Press Release, *November 29, 2008*

[www.prweb.com/releases/2008/11/prweb1683104.htm](http://www.prweb.com/releases/2008/11/prweb1683104.htm)



*The UN Advisors Group on Inclusive Financial Sectors - a group of 25 experts assembled by the UN to advise the organization and its member states on issues related to microfinance - recommended today a course of action to UN Secretary-General Ban Ki-moon to reach 2.1 billion worldwide who lack access to the most basic financial services. The group participated in a panel discussion to highlight the role of microfinance in mobilizing financing for development as part of the International Conference on Financing for Development in Doha on 29 November 2008.*

The impact of the current global financial crisis on the world's poorest populations and their ability to access a broad range of financial services--secure savings, health or crop insurance, remittances and affordable credit--was highlighted at the International Conference on Financing for Development in Doha, Qatar today. The UN Advisors Group on Inclusive Financial Sectors (UNAG)--a group of 25 high-level experts assembled by the United Nations to advise the organization and its member states on issues related to microfinance--presented Secretary-General Ban Ki-moon with concrete recommendations on how to expand financial services to the world's 2.1 billion "unbanked."

Removing systemic barriers that exclude low-income consumers from the world's financial systems is seen as a fundamental step in the process of eradicating poverty, building wealth at the national level, and mobilizing domestic resources for development. These issues are central to discussion at the Doha Conference convened to review the progress on the implementation of the Monterrey Consensus.

"My fellow Advisors and I are firmly convinced that inclusive finance is the fundamental platform from which

individuals and nations can achieve equitable prosperity," said HRH Princess Máxima of the Netherlands, UN Advisor and Chair of the Advisor's Group Advocacy Committee. "'Financial Inclusion for All' is a call to action that we must all embrace."

"Access to a diverse range of financial products and services can directly provide individuals and families with the tools to generate income, build capital, and properly manage unexpected risks, all of which provide them with the wherewithal to pave their own way out of poverty," said H.E. Mr. Marc Bichler, Ambassador and Director of Development Cooperation, Luxembourg and Chair of the UNAG.

UN Advisor and Managing Director of Micro-Credit Ratings International Limited (M-CRIL), Sanjay Sinha, situated inclusive finance within the global economic context. "The current economic crisis renders financial inclusion more important than ever before," said Sinha. "The 'unbanked' are not subprime. In fact, low-income households make good, reliable banking clients if banks approach them with appropriate products and practices. And their inclusion will reap real economic dividends for communities and countries alike."

The UNAG's recommendations note the importance of cross-sector coordination in creating successful inclusive financial systems and extending access and the opportunity it provides to the world's poorest populations.

Secretary-General Ban Ki-moon stated, "I am grateful to the UN Advisors for leading the way. Your key messages to governments, regulators, development partners and the private sector provide a tangible framework for action."

I am sure that many organizations and institutions would get involved if only they knew how. These messages provide a clear direction."

**The UNAG key messages also note:**

Governments should promote access for all citizens to a broad range of financial products and services, embrace new technologies and delivery channels, create helpful policy environments, reject interest rate ceilings that limit credit expansion, and promote consumer protection, transparent prices, financial education and an open, competitive market.

Regulators should establish conditions that allow a diverse range of institutions to provide financial services, enable appropriate supervision for financial services providers and their supporting industries, and mitigate risk and balance concerns of safety without limiting access.

Development partners should build human and institutional capacity to meet funding needs, support the range of financial institutions that are apart from inclusive financial sectors, and monitor the financial and social performance of development-partner investment portfolios.

The private sector plays an important role in expanding access and should realize the market opportunities, engage at the executive level, and forge partnerships with both the financial sector and businesses that support the financial services industry.

The full text of the UNAG key messages, as well as additional resources and information about the UNAG and inclusive finance are available at [www.UNadvisorsgroup.org](http://www.UNadvisorsgroup.org).

# MICROCAPITAL STORY: THE GLOBAL FINANCIAL CRISIS AND MICROFINANCE

**Source:** MicroCapital, Scott Everett, Research Assistant, *October 8, 2008*

[www.microcapital.org/microcapital-story-the-global-financial-crisis-and-microfinance/](http://www.microcapital.org/microcapital-story-the-global-financial-crisis-and-microfinance/)



As financial markets struggle internationally, some microfinance institutions (MFIs) have begun to see downstream effects in the form of rising lending rates. Royston Braganza, chief executive officer of Grameen Capital India observed "the demand for funds is high because microfinanciers have drawn up aggressive growth plans" and "the cost of funds remains a concern due to the 2 percent increase in just the last quarter." These factors could make fundraising very difficult for microfinance institutions in cases where they have not built up proper reserves according to K. Vinod Kumar, Assistant Vice-President of member services at SKS Microfinance.

Despite these calls for concern, some key microfinance practitioners and advocates are publicly voicing their support for microfinance as a stable alternative investment. Muhammad Yunus of the Grameen Foundation said, "The financial crisis has not hit the microfinance system" and that "in the middle of all these bad news: microfinance still works." Bill Clinton said last week that investors should "consider the poor of developing

nations as viable investment alternatives to today's turbulent markets."

If history serves as any lesson, one might look back to the late 1990s when a recession hit Southeast Asia and Latin America. Although the current crisis is substantially larger and affects markets globally, there are some similarities in their effects; declining investor and consumer confidence can create a lack of funding. In Indonesia, the center of the 1990s financial crisis, the currency collapsed and the economy decreased 13 percent in 1998, impoverishing much of the middle class. But the country's network of People's Credit Banks -2,200 institutions serving the low end of the microfinance market with loans averaging US\$77-held their collective loan portfolio more or less steady throughout the crisis.

David Roodman, a research fellow for The Center for Global Development (CGD), noted that a factor worth considering is that most foreign investment in microcredit still comes from people and institutions motivated by charity and already primed to accept great risk. Yet even if foreign investment decreases and delays a shift some had foreseen toward commercialization in microfinance, it is just one source of funding. Grameen Bank,

which used to borrow heavily from foreign sources, was experiencing excess liquidity from client deposits as recently as 2007 and in many African countries the predominant microfinance model is savings-led financial cooperatives that do not even take foreign investment.

Benjamin Kahn and Tor Jansson of The Inter-American Development Bank (IDB), argue "the fate of an MFI, like that of any firm, will hinge on countless factors both internal and external, some predictable and some not. But all else being equal, there is little doubt that MFIs will benefit from close ties with their local communities, from knowing their borrowers well, from having an ownership structure that includes shareholders with a strong interest in their well-being, from conforming to local financial regulations and from making good use of local savings."

In spite of these arguments that microfinance will remain stable, the likelihood is that MFIs in their early stages (that depend on government donor agencies, foundations, NGOs, or apex institutions for funding) are more likely to be negatively affected. Laura MacInnis of Reuters observed "Charitable giving and foreign aid flows are likely to dry up as the global economy sours." Steve Radelet, a senior fellow at CGD, said "Washington in particular would be under severe pressure to pare its international aid spending after agreeing a \$700 billion financial rescue package."

The Inter-American Development Bank, founded in 1959, is a multilateral institution with 47 member countries. Although the main focus of the organization is to provide funding to development initiatives, the IDB also provides research and consultations in addition to hosting conferences. A list of donors to the IDB can be found in the organization's 2007 annual report.

SKS Microfinance was established in 1997 is the largest and fastest growing microlender in India. In 2007 SKS grew by nearly 300 percent, expanding its loan portfolio to USD 64 million, all while maintaining a 99.97 percent on-time repayment rate. As of March 2007, SKS held total assets of USD 78.8 million, had a debt-to-equity ratio of 379.22 percent and return on assets of 1.75 percent.

Grameen Capital is a collaboration between Grameen Foundation, IFMR Trust and Citicorp Finance India Limited, created in January of 2008 to increase the outreach of MFIs and number of livelihood finance providers in India by integrating them into the formal financial markets.

CGD is an independent, not-for-profit think tank that works to reduce global poverty and inequality by encouraging policy change in the U.S. and other rich countries through research and engagement with the policy community.

# MICROFINANCE STILL HUMS, DESPITE GLOBAL FINANCIAL CRISIS

**Source :** Interview of Mary Ellen Iskenderian, Women's World Banking, by Jeremy Caplan, Time.com, December 3, 2008

[www.time.com/time/business/article/0,8599,1863443,00.html](http://www.time.com/time/business/article/0,8599,1863443,00.html)



When the rich suffer, so do the poor. Or so goes the trickle-down theory. It turns out, though, that the spreading of global financial pain is far from simple. The microfinance industry, for instance, may be resistant to some of the volatility now plaguing financial markets. That's because those who borrow in small amounts from micro lenders often work on projects unaffected by large-scale global banking travails. Recent studies have confirmed the robust reliability of borrowers at the bottom end of the global income scale. The world's poorest are affected, though, by commodity price volatility and fluctuating food and fuel costs. Mary Ellen Iskenderian, CEO of Women's World Banking, a global network of 54 microfinance institutions and banks in 30 countries, spoke to Time's Jeremy Caplan recently about how the financial crisis has affected those on the lower rungs of the world's economic ladder.

**TIME :** To what extent and in what specific ways is the worldwide credit crunch impacting microfinance in developing countries?

**Iskenderian:** There is evidence that microfinance is resilient to global market movements, compared to traditional lending, as it falls outside of the mainstream economy. And there does still seem to be equity available for microfinance; recently, for example, a couple of large private equity deals were completed in India. Repayment rates remain very high, 97% or 98% in many places. That results from good, old-fashioned credit methodology — you know a household's capacity to repay. That's the kind of old-fashioned banking that some people feel was absent in this latest round of banking disasters. At the same time, we are seeing many microfinance institutions (MFIs) scaling back expansion plans and, in some cases, raising interest rates as a result of the credit-spread increase and the rising cost of borrowing. Certainly, no one is taking their existing funding relationships for granted. My concern is that we have only begun to see the effect of the triple threat of finance, fuel and food issues on microfinance.

**TIME :** To what extent have the global economic challenges trickled down to impact the poorest of the poor?

**Iskenderian:** The impact on the poor, including the clients of our network, has probably been most evident in rising food and energy prices, which have meant that families may face trade-offs like the choice between paying back their loans or putting dinner on the table for their families. Microfinance doesn't target the poorest of the poor, as they need other types of intervention. It targets the economically active poor at the bottom of the pyramid. There are signs that micro-entrepreneurs will see higher interest rates, since the global credit crunch will likely require MFIs to raise interest rates as funding becomes more scarce. I am particularly concerned about the ramifications for women since, for many poor women around the world who are otherwise excluded from formal financial systems, access to microfinance is their only economic lifeline.

**TIME :** What prompted the development of a financial instrument like micro-insurance, and what's the broader impact of new financial instruments aimed at the world's unbanked?

**Iskenderian:** Product diversification came out of a recognition that lending alone is not the solution if our end goal is long-term poverty alleviation, which is why we in the industry no longer talk about microcredit, but microfinance. Many entrepreneurs in the developing world are only one seemingly minor catastrophe — like a hospital stay — away from financial disaster, so housing loans and insurance and savings products help create and preserve assets, leading to broader benefits for the economy as a whole. I can't tell you how many times I've heard women clients in our network ask, "Why can't I save for my child's education, instead of taking out another loan to pay for it?" The poverty alleviation benefits are magnified when microloans are supplemented with savings and insurance products.

**TIME :** What other trends are you observing in the microfinance world?

**Iskenderian:** The trend that is most shaping the industry today is undoubtedly commercialization, as microfinance is increasingly seen as a distinct asset class and a profitable business opportunity. The numbers are truly staggering. In 2006, over \$2 billion in commercial capital poured into the microfinance industry. In 2007, this investment was over \$3 billion. At the same time, MFIs themselves are increasingly transforming from non-profit organizations to regulated, for-profit institutions. They are doing so even as many microfinance institutions still rely on a guy keeping a big book with a ledger rather than a computer system. But there is a delicate balancing act that we have to maintain, because while commercialization holds tremendous promise for expanding access to microfinance services to the more than one billion people — especially women — who have yet to benefit, there is also a clear risk of mission drift. One particularly disturbing trend — since you can't talk about poverty alleviation without talking about women's economic empowerment — is a decrease in the percentage of women being served as MFIs move toward a for-

profit model. So making sure that profit doesn't trump mission is critically important.

**TIME :** What are the primary objectives of your microfinance network over the next couple of years?

**Iskenderian:** Continuing to raise global awareness of microfinance as a viable way to invest in poor women entrepreneurs and fight poverty around the world is our overarching goal. And the focus on women is really key not only for economic empowerment and empowerment reasons, but also because of the multiplier effect on economies and communities, since women reinvest their profits back into their communities at greater rates than men. One of the products we're developing that I'm most excited about is a pilot program for savings targeting young women and adolescent girls that we're working on with the Nike Foundation. Regional expansion is also a priority for us, and we're pursuing expansion strategies in Africa — where some astounding progress has already been made and the prospects for accelerated growth are promising — and the Middle East, and also in China, where microfinance is still a nascent industry.

**TIME :** How is microlending today different from where it was a few years ago when Grameen Bank was expanding rapidly?

**Iskenderian:** It is truly astonishing how the microfinance industry has changed since I began working in the field of international development. Microfinance has really come of age, and I think that many of the trends I mentioned before — from commercialization to product diversification — have all played a part in this transformation. But as I said before, to take full advantage of microfinance's potential, it is also important for the industry to continue to innovate and evolve. One of the most significant changes has been the move from group to individual lending — an area that Women's World Banking, an international network of microfinance institutions and banks, has helped pioneer. Individual lending is a way to allow micro businesses to start to grow, providing larger, cash-flow based loans than the group might be comfortable counter-guaranteeing. Group lending, where large groups of borrowers are jointly responsible for making sure loans are repaid, is an excellent introduction to finance for micro-entrepreneurs, but the businesses tend to remain quite small, purely income-generating activities that rarely grow to scale. Like group lending, the individual lending methodology does not require the borrower to have collateral since the MFI's lending decision is based on the household's capacity to pay. Marketing is another relatively new area that has not traditionally been a focus of the microfinance industry. Yet as MFIs increasingly move beyond credit to offer insurance and savings products so that women can save to pay their children's school fees and invest in healthcare for their families, and as the industry becomes increasingly competitive, understanding customer behavior is becoming more important. In this way, microfinance has come to adopt [more traditional] business practices.

**TIME**

# QUEL EST L'IMPACT DE LA CRISE FINANCIERE SUR LES IMF DANS LE MONDE ?

**Source :** Portail microfinance (Rubrique « Coup de projecteur »), d'après un article du Microcredit Summit

<http://www.lamicrofinance.org/content/article/detail/23124?PHPSESSID=219d082eba465a49f9acb9df22275338>



La Campagne du Sommet du microcrédit a mené une enquête pour savoir comment les institutions de microfinance vivaient réellement cette crise. Les dirigeants de neuf institutions de microfinance d'Asie, d'Afrique et d'Amérique latine ont participé à cette enquête au cours de la semaine du 13 octobre 2008. Des extraits tirés du bulletin d'information du MSC donnent un aperçu des conséquences de la crise sur le terrain.

Certaines institutions de microfinance n'ont pas encore ressenti l'impact de la crise, tandis que d'autres sont les témoins de la forte augmentation du coût des ressources et des effets directs sur les conditions de vie des clients.

Shafiqul Haque Choudhury, Président de ASA au Bangladesh et John de Wit, Directeur général de la « **Small Enterprise Foundation** » en Afrique du Sud, expliquent que leurs organisations respectives n'ont pas encore rencontré de difficultés dans la gestion de leurs fonds de crédit. D'autres dirigeants d'institutions de microfinance affirment quant à eux avoir déjà constaté les effets de la crise financière.

## CRISE DE LIQUIDITÉ

**Udaia M. Kumar, directeur général de Share Microfin Limited en Inde :**

« SHARE est confrontée à une difficulté d'accès aux ressources en raison de l'assèchement des liquidités. Bien qu'en principe, SHARE ait négocié des financements à hauteur de 155,6 millions USD, assortis d'un taux d'intérêt favorable, nous sommes confrontés à une situation dans laquelle les banquiers et institutions financières tentent d'introduire des clauses pour relever les taux d'intérêt à des niveaux exorbitants et demandent des garanties personnelles à nos administrateurs. La situation est alarmante car elle affecte notre crédibilité et met en péril la confiance construite pendant 20 ans auprès de nos clients. Cette situation pourrait se traduire par des défauts de remboursement des clients. »

**Roshaneh Zafar, Président de la Kashf Foundation au Pakistan :**

« Le premier impact a été la pénurie de liquidités sur les marchés financiers - réduisant notre capacité à mobi-

liser des fonds supplémentaires cette année. En mars 2008, nous avons révisé nos plans de croissance de 500 000 à 350 000. Au cours des neuf derniers mois, la croissance de la Fondation a été de 6%.

Le deuxième impact est une forte augmentation du coût des activités. En raison des contraintes de liquidité, le coût des ressources a augmenté de plus de 450 points. Dans le même temps, la crise de l'énergie a fait grimper le coût du transport et de l'électricité, et suscité l'espoir que les salaires suivent l'inflation. Une récente enquête auprès du personnel a montré que plus de 50% de nos effectifs actuels ne sont pas satisfaits de la situation salariale et attendent un ajustement prenant en compte l'augmentation du coût de la vie. Cela aura des répercussions sur la productivité des agents de crédit ainsi que sur l'efficacité et la pérennité globales.

Le troisième impact se fait sentir sur la qualité du portefeuille, à cause de l'augmentation des abandons de clients du fait des faillites d'entreprises, et plus généralement de la moindre capacité de la clientèle à faire face aux remboursements.

La stratégie de Kashf pour faire face à ces effets est la suivante :

- Être prudent et se développer plus lentement au cours de cette période ;
- Rester en contact étroit avec les clients ;
- Améliorer l'efficacité pour compenser la hausse des prix ;
- Améliorer globalement la conformité et le suivi ;
- Maintenir un bon niveau de liquidité ».

## EFFETS DU DÉCLIN DES EXPORTATIONS SUR LES CLIENTS

**Santa Isabel de Euceda, directrice de l'ODEF (Organización de Desarrollo Empresarial Femenino) au Honduras :**

« La crise financière mondiale affecte les clients de l'ODEF et l'institution elle-même parce que beaucoup de nos clients vivent dans des zones dominées par les usines d'assemblage. Ce secteur a été l'un des premiers à ressentir les effets de la crise car les produits de ces usines sont destinés à être exportés vers les États-Unis. La crise a provoqué une baisse des revenus ainsi que des licenciements, et de ce fait une diminution des ventes des micros et petites entreprises dont ces travailleurs constituent la clientèle. Cela réduit la capacité de nos emprunteurs à rembourser les prêts et a contraint l'ODEF à procéder à l'ajustement des conditions de certains prêts en cours.

La crise va continuer à affecter les secteurs d'exportation tels que le mobilier, l'art et l'agriculture, ce qui va fortement peser sur l'économie hondurienne. Pour réduire les effets de cette crise sur nos clients, nous avons ajusté des prêts à risque, éliminé les crédits à la consommation et nous étudions de plus près les nouvelles demandes de prêt. »

## PAS ENCORE TOUCHÉS PAR LA TEMPÊTE

**Tony Fosu, directeur de Sinapi Aba Trust (SAT) au Ghana :**

« Bien que l'effet de la crise semble aujourd'hui très minime, nous nous attendons à des conséquences fortes sur la disponibilité de financement à l'avenir. Nous pensons que l'impact se fera sentir aussi bien sur les prêts commerciaux que sur les subventions de bailleurs de fonds. »

**Mekonnen Yelewem Wessen, directeur général de l'ACSI (Amhara Credit and Savings Institution) en Éthiopie :**

« Même s'il n'y a pas encore de signes clairs de l'effet de la crise sur les activités de l'ACSI, étant donné l'état actuel des choses, la probabilité de réalisation de certains risques est assez forte. Cela nous oblige à nous préparer à d'éventuels troubles. Le décalage des échéances entre les produits de prêt et les produits d'épargne est un risque. Cela suppose de diversifier notre structure de prêt afin d'éviter une panique bancaire. »

**Carmen Velasco, directrice de PROMUJER Bolivie :**

« Pro Mujer n'a pas encore été touchée par la crise financière, mais le sera bientôt très sérieusement. Nous augmentons les provisions afin d'anticiper une éventuelle hausse des impayés.

Nos clients vont subir une baisse de leurs ventes et une hausse des coûts de stockage. Les marges bénéficiaires vont diminuer, ce qui va pousser les clients à réduire la taille de leur entreprise. Ils prendront en conséquence probablement de plus petits prêts. Les clients dont les entreprises auraient eu besoin d'un prêt de 1000 ou 2000 dollars, n'auront peut-être plus besoin que de 500 dollars. Les clients pourront cependant être enclins à continuer d'emprunter plus pour maintenir leur niveau de consommation. Cela risque d'avoir des conséquences négatives sur leur entreprise et sur la croissance de Pro Mujer. »

# MICROCRÉDIT: INQUIETUDE PARMIS DES ACTEURS DANS LES PAYS PAUVRES

Source : AWP International in Swissinfo.ch, ds, 17 octobre 2008

[www.swissinfo.org/infos/nouvelles\\_agence/economie/Crise\\_financiere\\_Microcredit\\_inquietude\\_parmi\\_des\\_acteurs\\_dans\\_les\\_pays\\_pauvres.html?siteSect=163&sid=9861806&cKey=1224256811000&ty=ti&positionT=32](http://www.swissinfo.org/infos/nouvelles_agence/economie/Crise_financiere_Microcredit_inquietude_parmi_des_acteurs_dans_les_pays_pauvres.html?siteSect=163&sid=9861806&cKey=1224256811000&ty=ti&positionT=32)



Aux prises avec les premiers effets de la crise financière mondiale, de petits acteurs du microcrédit de plusieurs continents ont exprimé leurs inquiétudes vendredi à Paris à la veille de l'ouverture de la semaine de l'épargne solidaire (18 au 25 octobre).

"L'un des premiers effets de la crise sur nous, c'est que le coût de l'argent augmente, les taux d'intérêt monte et nous avons donc beaucoup de mal à trouver les ressources dont nous avons besoin", explique Lulzim Sadrija, Directeur de Krediti Rural i Kosoves (KRRK), institution de microfinance au service des populations rurales du Kosovo.

S'exprimant lors d'une conférence de presse organisée par le Comité contre la faim et pour le développement (CCFD), il souligne: "A terme, les taux d'intérêt pour les bénéficiaires des microcrédits vont augmenter aussi, ce sera vite intenable".

"Nous craignons aussi que la crise dans les pays développés ne fassent diminuer les sommes d'argent envoyées par la diaspora kosovare vivant en Suisse ou en Allemagne, réduisant ainsi les capacités financières des familles rurales", ajoute-t-il.

Sisaliao Svenguska, du Fonds coopératif (Laos), insiste de son côté sur "des diminutions de dons des bailleurs et une fragilité des banques qui pénalisent la microfinance".

Pour les institutions de microcrédit latino-américaines, "la crise financière mondiale a eu un effet immédiat en raison de l'ampleur des crises économiques que nous avons déjà traversées notamment en Argentine en 2001", renchérit Reynaldo Marconi, du Forum latino-américain et caribéen de finances rurales (FORO-LAC). "Il y a eu des fuites de capitaux, une réduction des épargnes".

Pour ce Bolivien, banquier de formation, "le risque à moyen terme, c'est la réduction des portefeuilles, une augmentation des taux de prêts et une hausse du non remboursement".

Mais selon M. Marconi, il faut distinguer deux types d'institutions de microfinance. "Celles qui ont une vision commerciale et se financent sur des fonds spéculatifs comme Compartamos au Mexique vont être très touchées par la crise mondiale", dit-il. Car depuis l'attribution en 2005 du prix Nobel de la paix au champion de la microfinance Mohammed Yunus, le secteur, qui peut être très rentable en raison de taux d'intérêt très élevés, a attiré les convoitises de capitaux étrangers, de grandes banques et de grands fonds d'investissement.

Au contraire, les institutions de microcrédit qui "obéissent à un objectif social et travaillent avec des ressources locales ne seront pas fortement affectées", juge-t-il.

La Caisse de crédit rural pour le développement basé au Nord-Kivu (est de la République démocratique du Congo - RDC) qui permet à 25.000 personnes de gérer de petits projets dans un contexte de guerre est de la seconde catégorie. "Nous essayons d'échapper à la crise mondiale en restant au niveau le plus rural possible, dans l'économie réelle", explique son directeur Stanislas Litembo.

"Nous sommes témoins aujourd'hui à travers la crise des effets d'une économie qui n'avait d'autre finalité qu'elle-même", commente Geneviève Guénard, directrice financière du Comité contre la Faim et pour le développement (CCFD-Terre solidaire), qui célébrait vendredi les 25 ans du fonds commun de placement de partage Faim et développement.

"Il est sans doute nécessaire aujourd'hui", ajoute-t-elle, "de se pencher sur la microfinance solidaire qui poursuit des objectifs sociétaux, sociaux et environnementaux, pour en tirer des leçons pour l'ensemble de l'économie".

swissinfo.ch

# REFERENCES

<http://www.microcreditsummit.org/enews/>

[EN] The official website of the Microcredit Summit contents information on microfinance and financial crisis country by country.

<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/638&format=HTML&aged=0&language=FR&guiLanguage=fr>

[FR] Discours prononcé par le Commissaire européen en charge de l'Aide au développement et l'Aide humanitaire, Louis Michel, lors de la remise du Prix européen de la microfinance en novembre 2008. Le Commissaire européen se dit en faveur du maintien de la politique européenne de développement malgré la crise financière : « ...Cette crise offre au monde une formidable opportunité de repenser la gouvernance mondiale et de la structurer pour que la mondialisation soit accompagnée de manière vertueuse, c'est-à-dire au service des femmes et des hommes, et non l'inverse. »

[http://www.infosud.org/spip/spip.php?page=impression&id\\_article=1402](http://www.infosud.org/spip/spip.php?page=impression&id_article=1402)

[FR] Le point de vue du Professeur Muhammad Yunus, Prix Nobel de la Paix : « Même si la micro-finance n'est pas directement affectée par la crise actuelle, le ralentissement de l'économie mondiale globalisée va frapper les pauvres de plein fouet. »

## Websites :

[www.microfinancegateway.org](http://www.microfinancegateway.org)  
[www.lamicrofinance.org](http://www.lamicrofinance.org)  
[www.mixmarket.org](http://www.mixmarket.org)  
[www.cgap.org](http://www.cgap.org)  
[www.microrate.com](http://www.microrate.com)



The information above is based on research from sources which are available to us and are not exhaustive. If you wish to receive more information, do not hesitate to contact the HOUSE OF MICROFINANCE - Info Zone at [adainfo@microfinance.lu](mailto:adainfo@microfinance.lu).

The House of Microfinance is managed by ADA with the support of the Luxembourg Development Cooperation. <http://www.microfinance.lu>

# DAMIAN VON STAUFFENBERG



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Damian von Stauffenberg is the founder of MicroRate, the world's first rating agency specializing in microfinance. Through its Latin American and African operating subsidiaries, MicroRate has conducted well over 400 ratings of microfinance institutions in Latin America, Africa and Eastern Europe. Before dedicating himself to microfinance, Mr. von Stauffenberg worked for 25 years in the World Bank and its private sector affiliate, the International Finance Corporation (IFC).

Mr. von Stauffenberg has been closely associated with a number of institutions that have played pioneering roles in connecting microfinance to capital markets. He has been President of Seed Capital Development Fund (SCDF), Chairman of the Investment Committee of Profund, Chairman of the executive committee of MicroVest and member of the Executive Committee of the Latin American Challenge Investment Fund, LA-CIF.

*Damian von Stauffenberg was the speaker of the Microfinance Lunch Break (Midi de la microfinance) in Brussels and Luxembourg on 10th and 11th February, 2009.*

[www.microrate.com](http://www.microrate.com)



## BRS. Solidarity-based banking and insurance in the Developing World

*Give a poor man a fish and he will eat for a day.  
Give him a fishing rod and teach him to fish and he will eat for the rest of his life.  
But he will not achieve true independence until he manages to save up  
and buy his own rod with a loan.*

**Last year, BRS supported 20 projects in 15 developing countries, with half a million euros worth of financial aid, 110 days of advice, training days, bank guarantees and a hundred computers. And this was not a one-time success: for 17 years, BRS has been active in developing countries, supporting local initiatives for saving, credit and insurance based on cooperative principles. A conscious choice.**

### 'Micro' what?

Three billion people on this planet still do not have access to financial services. Micro-finance and micro-insurance organisations in developing countries offer a solution, by developing services for 'non-creditworthy' and 'uninsurable' people. These are not miniature-sized financial institutions, but rather organisations with a specific business model. Credit activities are often preceded by training. After all, it's impossible to imagine setting up a medical insurance business without investing in health prevention. Other organisations offer combined banking and insurance *avant la lettre* (see insert).

### **Combined banking and insurance, the African way**

Through Belgian non-governmental organisation (NGO) Louvain Développement, BRS is supporting the launch of a mutuality in the West-African country of Benin. Thanks to that mutuality, the members only pay a quarter of the price for visits to a doctor and prescription medicines! The medical insurance that covers all other expenses costs three euros per year. Since this financial threshold was lowered, the members of the mutual health insurance go more readily to the doctor when they are ill.

Local micro-finance institution CMEC (Caisse Mutuelle d'Epargne et de Crédit) concluded an agreement with the mutualities: clients are only eligible for a line of credit of 45 euros or more if they place one third of the sum in a savings account, and if they take out the medical insurance. In this way, CMEC encourages everyone to join the mutuality. Such agreements are also very interesting for savings and credit cooperatives. The medical insurance means that borrowers are less likely to encounter unforeseen payment difficulties, as their costs in the **event of illness are limited. This results in a much greater likelihood that the credit will be repaid to CMEC.**

*(See DVD 'A day in Honhoué (Benin)')*

### **BRS: launched with 100 years of experience**

The basic conditions in the developing countries in which these organisations are set up are, on the whole, similar to the situation during the early years of what used to be the cooperative CERA Bank, in the late 19th century. In 1992, on the occasion of the bank's 100th anniversary, Belgische Raiffeisenstichting (or BRS) was formed. A hundred years of experience with cooperative banking and – later – insurance would be made available to micro-finance institutions (MFIs) and micro-insurance institutions working according to principles of solidarity.

### **Unique position: offering both finance and advice**

BRS's experience of organising savings and credit groups and setting up cooperative structures is a real help when supervising projects. Its close link with the KBC group allows BRS to tap into a valuable source of banking and insurance know-how. A group of KBC managers and executives volunteer their expertise and experience to BRS as consultants. They assist BRS in researching new projects and evaluating existing projects. They not only study the files, but also visit the actual projects. While the projects are under development, they assist and advise their fellow bankers in the southern hemisphere at strategic moments.

### **Training and awareness**

With its up-to-date knowledge of banking and insurance combined with its years of experience of cooperative projects, BRS has the perfect know-how in-house to create specific training material and to offer courses on micro-financing, both in the southern and northern hemispheres. The topics addressed include the cooperative concept, saving, credit, insurance and financial analysis. This makes BRS more than simply a financier of projects, but rather a true partner, that counsels and assists start-up organisations during the growing pains and other problems, with a group of interested and active supporters in Belgium.



### **Leverage**

BRS also calls on the expertise of Belgian NGOs in the selection and monitoring of micro-finance and micro-insurance projects. Organisations such as Trias, SOS Faim and Louvain Développement have their own staff on the field to take care of the daily supervision of the projects. Moreover, thanks to this cooperation, BRS can avail itself of a great deal of financial leverage. The Belgian and European authorities contribute several times the amounts contributed by BRS. Half a million euros of aid becomes over two million euros by the time it reaches the ultimate beneficiaries: a fantastic return!

### **Guarantee fund**

BRS believes it important that microfinance institutions have connections with established local financial institutions, and vice versa. BRS's guarantee fund helps to realise this objective: it covers lines of credit extended to microfinance institutions by local banks or financial institutions. This cover is subject to the condition, however, that those local banks also bear part of the risk. Experience shows that this is not an easy condition, but that it is possible. In Ethiopia, after almost 18 months of negotiations, BRS succeeded in reaching an agreement with Awash Bank to bear 45% of the risk for a line of credit granted to the MFI Wasasa. Thanks to a 90 000 euro guarantee, Wasasa has a line of credit in the amount of 200 000 euros, which it uses to meet the credit demands of over 2 000 clients.

### **Prosperity and wellbeing**

BRS is convinced that savings and credit facilities should not be goals in and of themselves, but instead should serve as a tool not only for increasing prosperity but also for focusing on people's wellbeing. That focus on development as human beings, which is now part of programmes such as Grameenbank, has always been an important factor for cooperatives. The savings and credit activities must, however, be founded in healthy business principles, and the sector must be aware that it cannot solve all forms of money shortages with credit. Credit approvals have to be based on prudent credit applications, not just on formal or informal guarantees.

### **Long-term commitment**

Sadly, the financial resources that are set aside for microfinance by various development programmes and investors also mean that young, promising organisations are forced to grow too quickly. Structures such as cooperatives, which involve their members in their policy decisions, threaten to fall behind because of their decision-making and control processes.

In addition, the influence on the policies of external financiers is often greater than that of the organisation's own members. Under those conditions, such organisations are given little opportunity to develop their own dynamics. That is why BRS consciously opts for direct cooperation and a longer-term commitment.

### **History as a source of inspiration**

A lot of water has passed under the bridge, but F.W. Raiffeisen's principles still apply to this day. BRS does not look back for the sake of nostalgia, but considers history to be a source of inspiration in the support it provides.

BRS still uses its knowledge and insight in offering the necessary support to start-up savings, credit and insurance institutions in the southern hemisphere. In this way, the past gives these organisations a future to believe in.

\*\*\*\*\*

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# PARTNERS IN BRUSSELS



KBC is an integrated bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. It occupies leading positions on its home markets of Belgium and Central and Eastern Europe, where it specialises in retail bancassurance and asset management activities, as well as in the provision of services to businesses. The group is also active in a selection of other countries in Europe in private banking and services to businesses. Elsewhere around the globe, the group has established a presence in selected countries and regions.

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Febelfin, i.e. the Belgian Financial Sector Federation, wants to take up the challenge of playing an important role as a go-between for its members on the one hand and several parties at the national and European level on the other hand, such as policy-makers, supervisory authorities, trade associations and pressure groups.

Febelfin closely follows trends and developments and helps its members in taking up the right position. The Federation provides its members with information and guidance in fields such as product technology, law, taxation, prudential supervision and social law.

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Cera is not a bank anymore. Cera is a co-operative with around half a million members. We invest in community projects at regional, national and international level that reflect the values of our co-operative, viz. collaboration, solidarity and respect for the individual. The targeted areas of investment are: poverty and social exclusion, Cera Competence Centre for Businesses, Art and culture, Agriculture, horticulture and the countryside, Medical and social, local education initiatives and Solidarity-based banking and insurance in developing countries through BRS.

Cera has a shareholding of over 30% in KBC Group.

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## INTRODUCING ADA



### WHO WE ARE?

ADA (Appui au développement autonome, meaning "Support for Autonomous Development") is a non-governmental organisation (NGO) specialising in microfinance, a specific poverty-reduction tool whose use is particularly widespread in developing countries. Founded in 1994, in Luxembourg, ADA has been mandated by the Ministry of Foreign Affairs Cooperation Department and has been operating since 2007 under the High Patronage of Grand Duchess Maria Teresa.

### WHAT WE DO?

Our mission consists in supporting microfinance institutions (MFIs) based in developing countries in their growth process. This support, which may be of a technical and/or financial nature, is aimed at increasing the professionalism of the MFIs by making them more effective, independent and innovative.

We work in direct partnership with 25 MFIs located in Africa, Asia and Latin America. Nearly 200 microfinance institutions benefit indirectly from our different services.

### WHERE WE WORK?

**ADA** works directly with 25 microfinance institutions in 16 different countries on three continents:

**Africa:** Burkina Faso, Mali, Senegal, Togo, Benin, Ethiopia

**Latin America:** Peru, Bolivia, Nicaragua, Argentina, Ecuador, Costa Rica, Chile

**Asia:** Cambodia, Vietnam, Laos

### THE SERVICES WE OFFER

**Professionalisation:** Supporting MFIs in their development and professionalisation process, thereby promoting independence, transparency and growth

**Innovation:** Experimenting with new microfinance products (microinsurance, integration into the labour market for young people, remittance payments, etc.) with a view to extending the range of products and services accessible to populations that are excluded from the traditional banking system

**Funding:** Reinforcing the financial resources of MFIs through loans, guarantees and investments, through the Luxmint programme

**Publishing:** Producing and publishing publications for MFIs focusing on "good practices" in microfinance

**Information:** Centralising and disseminating information relating to microfinance to MFIs, donors, associations, academics, students, etc. and any person or organisation interested in the subject

**Support-Advice:** Supporting public or private organisations/ institutions in the development of their microfinance activities

**Awareness Raising:** Setting up awareness campaigns to spark public interest in microfinance in Luxembourg

Nearly 90% of the citizens living in the 15 member states of the European Union have their own bank account. In developing countries, this percentage ranges from 6.4% (in Tanzania) to a maximum of 50% (in Brazil).

source : ONU 2006



## WHO ARE OUR PARTNERS?

Despite its small size, ADA is recognised as an NGO specialising in microfinance. We are members or founding members of numerous organisations operating in the microfinance sector. Upon request, we also provide support-advice for NGOs or institutions that wish to develop a microfinance component among their activities.

### In Luxembourg

**Department of Cooperation of the Ministry of Foreign Affairs:** After more than a decade of collaboration, a five-year mandate has been signed with ADA (2007-2011) to implement development assistance projects through microfinance.

**Lux-Development:** The executive branch of the development assistance programmes of the Department of Cooperation has called on ADA as a technical advisor in the framework of specific projects on microfinance.

**ATTF:** The Financial Technology Transfer Agency (ATTF) uses ADA's microfinance expertise in the framework of certain seminars.

**Luxembourg Round Table on Microfinance:** A platform initiated by Luxembourg's Department of Cooperation in order to develop the microfinance sector. ADA is a member of this Round Table.

**Etika asbl:** ADA is a member and administrator of Etika (Initiativ fir Alternativ Finanzéierung), a non-profit organisation whose mission is to promote "ethical" money, particularly through alternative investments.

**LuxFLAG:** The LuxFLAG label is a guarantee for investors that their money is truly invested in microfinance. This label is granted by the Luxembourg Fund Labelling Agency, of which ADA is a founding member

### Internationally

**European Microfinance Platform (e-MFP):** ADA is a founding member of e-MFP, a body created in 2006 that includes some 50 organisations in 12 European countries. Its mission is to promote universal access to financial services in developing countries.

**CGAP Working Group on Microinsurance:** Chaired by the International Labour Organisation (ILO) and composed of a consortium of donors, multilateral agencies, NGOs and private insurance companies, the CGAP (Consultative Group to Assist the Poor) Working Group on Microinsurance aims to promote the development of insurance services for the poor. Within the Working Group, ADA is in charge of the Disseminating Subgroup and manages the website and publishes a newsletter.

**University of Nancy II:** Associates and staff of ADA lecture students of a Master's programme on "Micro and small businesses, microfinance and development" at the University of Nancy II.

**Université Libre de Bruxelles (ULB):** Since 2007, ADA has been a partner of the European Microfinance Programme, a joint Master's programme in Microfinance offered by the Solvay Business School (ULB), University of Wageningen and the Faculté Warocqué (UMH).

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# PARTENAIRES A LUXEMBOURG



GRAND-DUCHÉ DE LUXEMBOURG

Ministère des Affaires étrangères

La Coopération luxembourgeoise au développement se place résolument au service de l'éradication de la pauvreté, notamment dans les pays les moins avancés. Ses actions s'inscrivent prioritairement dans la mise en œuvre - d'ici 2015 - des objectifs du millénaire pour le développement. Ainsi les principaux secteurs d'intervention de la coopération relèvent du domaine social : la santé, l'éducation, y compris la formation et l'insertion professionnelle et le développement local intégré. Les initiatives pertinentes dans le domaine de la microfinance sont encouragées et appuyées, que ce soit au niveau conceptuel ou au niveau opérationnel. La Coopération luxembourgeoise offre notamment son appui financier pour l'organisation des Midis de la microfinance au Luxembourg.

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BANQUE  
DE LUXEMBOURG

Established in Luxembourg since 1920, Banque de Luxembourg offers wealth management expertise to private and professional investors in Luxembourg and the rest of Europe. Its philanthropy advisory services are the natural extension of its wish to accompany its clients at every stage of their life, with analytical and project management expertise, and in-depth knowledge of clients' expectations. As a committed sponsor of the Luxembourg social and cultural scene, the Bank sponsors "Les midis de la Microfinance" with the aim of promoting the development of philanthropy in Luxembourg.

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**Etika- Initiativ fir Alternativ Finanzéierung asbl** est une association sans but lucratif ayant pour objet de promouvoir des financements alternatifs et de réfléchir au développement de l'investissement socialement responsable, afin de favoriser l'accès au crédit pour des initiatives qui donnent la priorité à l'utilité sociale et culturelle, à la solidarité internationale et au soutien de l'écologie au Luxembourg et dans les pays en voie de développement. Concrètement, etika, en collaboration avec la **Banque et Caisse d'Epargne de l'Etat (BCEE)**, propose depuis 1997 un produit d'épargne répondant à des critères de responsabilité, de transparence et de solidarité : le compte d'Epargne Alternative. Le compte Epargne Alternative permet à l'épargnant de savoir ce que la banque finance avec son argent. Il sait que son épargne est investie, sans risque pour lui dans des projets ayant une plus-value sociale et écologique. Le compte Epargne Alternative étant à vue, l'épargnant est assuré du libre accès à son avoir, d'un rendement et d'un capital garanti. Etika dispose également d'un autre instrument : le fonds de soutien et de garantie. Ce fonds est mobilisé pour des projets à haute valeur ajoutée sociale ou environnementale qui ont des difficultés à se faire financer par les institutions bancaires traditionnelles. Une partie de ce fonds est aussi utilisée pour renforcer les institutions de microfinance dans le Sud.

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# MIDI DE LA MICRO- FINANCE



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