

## Reducing Poverty Through Microfinance

### Capital Management & Advisory Center



REPORT ON GLOBAL FINANCIAL CRISIS

April 2009

- **Both MFIs and clients are affected by global crisis; effects have lagged broader market impacts**
- **Microfinance growth rates will slow significantly this year**
- **Some MFIs' financial health under stress**
- **GF focus on:**
  - risk management
  - ensuring products & services address current needs of MFIs as well as the poorest clients, of whom there are increasing numbers.

- **Global credit crunch coupled with greater risk aversion**
- **Inflation, partially driven by persistently high food prices**
- **Depreciating local currencies**
- **Global recession**

- **Difficulty raising capital** & refinancing existing capital, coupled with rising cost of funds
  - **Slow/negative growth**
  - **Modest hit to profitability**
  - **Savings-led MFIs more insulated from this trend**
- **Inflation** driving increase in operating costs
  - **Modest hit to profitability**
  - **Pressure on MFIs to consider interest rate increases; although very few have**
- **Demand from clients is easing** in some countries; clients report the downturn is slowing business
  - **Some evidence that average loan size is decreasing**
  - **Slower growth may allow MFIs to consolidate after years of rapid growth**
- **Unhedged foreign currency exposure** increases risk of being unable to service USD/EUR debt

## The food crisis and global financial crisis are impacting clients globally:

- **Clients are prioritizing food expenditures and cutting on education** and social/community expenses
- **Clients are saving less**
- Urban MFI clients seem to be more affected by food price inflation
- As regards clients' businesses, export-oriented sectors such as garments are clearly the most affected
- Some clients are also experiencing difficulties in repaying loans, although this is concentrated in E. Europe & Central Asia, regions GF is not present in
- **Decreased remittances are affecting household income**

*This data is culled from a survey of 600 MFIs conducted at the end of March by CGAP; over 20 GF-affiliated MFIs participated.*

## Growth Guarantees

- **Preliminary Q1 2009 trends show:**
  - Modest uptick in portfolio at risk
  - Negative growth in some cases (shrinking loan portfolios)
  - Decreasing average loan size
  - Refinancing risk will be area of concern throughout 2009

## 1. Strengthen risk management capacity:

- Create robust, independent risk management function

## 2. Catalytic Debt Facility

- a \$10 million facility that will support high potential early stage MFIs serving the poor/est, and will have significant potential to be the next generation leaders

## 3. Continue to support local currency

- Ensure that all Financing products shield MFIs as best possible from foreign currency risk.

## 4. Minimize Risks to GGs:

- Balance MFIs' need for capital with risk profile of Growth Guarantee portfolio

## 5. Forgotten Bottom:

- Support development of industry-wide innovations to reach the growing numbers of poorest. This includes the **Savings initiative** – especially important given that savings-led MFIs have fared the best during the crisis.

## 6. Support MFIs through the crisis:

- Help MFIs access training, advice and technical support via GF staff, Bankers without Borders, and other third parties.