



EUROPEAN  
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MICROFINANCE IN A NEW  
FINANCIAL ERA

# Governments' Responses to the Global Crisis

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# Agenda

1. Government responses to the crisis
  1. Overall trends
  2. Overview of government measures
  3. Power of Regulation: New regulation and interest rate caps
  4. Power of the Purse: Subsidized lending, apexes and guarantees
  5. Country table
2. Methodology

*Note: This presentation is based on a research conducted by Nina-Alexandra Cieslak & Eric Duflos*

# Government responses to the crisis

## Overall trends

- Significant number of government interventions related to the crisis; also in the western hemisphere
  - But often unclear attribution to crisis situation (see attribution slide)
  - Interventions include mainly:
    - Subsidized lending
    - Apexes and wholesale funds
    - Guarantees
- Focus on access to liquidity and measures to kick start lending


# Government responses to the crisis

## Overall trends

- Also increasing focus on social agenda
  - Social transfers as a good alternative for governments (e.g. Brazil, Mexico, etc.)
  - Shift from A2F to safety nets?
  - Financial education/ literacy programs (Philippines, Nepal, etc.)
- No signs of major loan forgiveness
  - Loan forgiveness e.g. in Nicaragua and Pakistan not related to the crisis
- Tendency towards ad hoc actions and lack of strategic approach
- Too early to assess results and impact of interventions

# Government responses to the crisis

## Overview of government measures

	Measures
Power of Regulation	New regulations
	Interest rate caps
 Power of the Purse	<b>Apexes and Wholesale Funds</b>
	<b>Subsidized Lending</b>
	<b>Guarantee Funds and Mechanisms</b>
	MF as part of Stimulus Packages

# Government responses to the crisis

## Power of regulation

### New regulations

- Relaxation of credit restrictions in China
  - Legalization of private lending between citizens (03/2009)
- Authorization for public deposit mobilization in Cambodia
  - Accelerated process of authorization by NBC for 2 MFIs (02/2009)
- Draft legislation to allow contract agents in Mexico
- Reduction of reserve requirements on SME and MF loans in Russia in order to incentivize banks to increase lending

# Government responses to the crisis

## Power of regulation

### Interest rate caps to protect small borrowers

- Streamlined interest rate policy for MFIs in Bangladesh (04/2009)
  - Temporary interest rate cap of 15% (30% effective)
- Nigeria (05/2009)
  - Interest rate cap on lending: 22%, deposit rate cap: 15%
- Policy directive by the Reserve Bank of Fiji (04/2009)
  - Adjustment of lending rates to the December 2008 rate
  - Reduction of the interest rate spread to 4 percent by the end of 2009

# Government responses to the crisis

## Power of the purse

### Apexes and Wholesale Funds

- Extension of a US\$ 1.5 billion credit line to SIDBI to provide emergency liquidity to SMEs and MFIs in India (11/2008)
- Plans for wholesale lending facilities in Russia (02/2009)
  - 28 Mio. US\$ for MF + 30% matching of regional authorities
- New Apex (Microenterprise Fund) in Malaysia (11/2008)
  - US\$ 40 Mio. at 1.5% p.a. for commercial banks that lend to MF borrowers
- Wholesale fund through RDB for farmers in Cambodia (US\$ 18 Mio.)



# Government responses to the crisis

## Power of the purse

### Ad hoc subsidized Lending

- Subsidized loans in Russia to prop up MSMEs
  - Subsidies for ratings, trainings etc. and interest rate subsidies
- Subsidized interest rates for banks by Vietnam's Central Bank
- Micro-Small-Medium Business Program (P250bn) in Mexico
- Proposal in Thailand to provide low interest loans and guarantees to banks for small-business loans

### Guarantee Funds and Mechanisms

- Microfinance Credit Guarantee Facility in Pakistan (01/2009)
  - Lending to MFIs at the SBP policy discount rate plus max. 2% (01/2009)
  - GBP 10 million in grant funds from the UK Government Financial Inclusion Program, several times leverage by the SBP
- Guarantee fund in Togo
  - Creation of a guarantee fund of up to 75% of MFI funding
- Guarantee for commercial banks to lend to SME and MFIs in Malaysia

# Government response to the crisis

## Power of the purse

### A2F as part of stimulus packages

- US\$ 50bn for rural development programs in China
  - MF expected to be an element of the package as the government has been scaling up MF lending rapidly over the past few years
- Focus on agricultural sector in Nigeria
  - USD 1bn for Commercial Agricultural Credit Guarantee Scheme Fund
- Infrastructure investment as a central part of the stimulus plans in LAC
  - Rural road maintenance projects initiated through microenterprises may produce 200,000 to 500,000 direct jobs per US\$ 1bn of disbursements

# Government responses to the crisis

## Country table

Country	New regulation	Interest rate caps	MF in Stimulus Packages	Subsidized Lending	Apexes & Wholesale	Guarantees	Others
<b>Sub-Saharan Africa</b>							
Nigeria		✓	✓			✓	
Benin					✓		
Togo						✓	
<b>East Asia and Pacific</b>							
China	✓		✓		?		
Indonesia		✓			?	✓	
Malaysia					✓	✓	
Cambodia	✓				✓		
Philippines	✓			✓			Financial education
Thailand				✦		✦	
Vietnam				✓			

# Government responses to the crisis

## Country table

Country	New regulation	Interest rate caps	MF in Stimulus Packages	Subsidized Lending	Apexes & Wholesale	Guarantees	Others
<b>South Asia</b>							
India			✓ (SME)		✓		
Sri Lanka				✓			Center for financial education
Bangladesh		✓		✓			
Pakistan				✓		✓	Financial literacy
Nepal	✓				✓		Financial education program
<b>Latin America and the Caribbean</b>							
Mexico	✦	✦		✓	✓		
Brazil						✓	
Bolivia	✓						
Nicaragua							

# Government responses to the crisis

## Country table

Country	New regulation	Interest rate caps	MF in Stimulus Packages	Subsidized Lending	Apexes & Wholesale	Guarantees	Others
<b>Russia, Eastern Europe and Central Asia</b>							
Russia	✓			✓	✓	✓	
<b>Middle East and Africa</b>							
Jordan				✓			

# Government response to the crisis

## Methodology

- Collecting and updating data on crisis responses of funders and governments
- Sources:
  - screening of internal CGAP resources
    - Studies, reports and interviews
    - BTOs, Summaries of bi-weekly crisis Meeting, etc.
  - Internet Research
    - (Crisis specific) websites (World Bank, ADB, GTZ, DFID, EIB, IFC etc.) and Blogs (World Bank crisis talk etc.)
    - MF related news services (microfinancegateway, symvest, microcapital)
    - Local newspapers
- Identification of trends



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