



Advancing financial access for the world's poor

The Impact of the Crisis on Clients, MFIs and Funders

Xavier Reille – CGAP
European Microfinance Week 2009
CGAP

Triple shocks vs. Slow recovery?

3 CRISIS IN PARALLEL

- **Food crisis:** poor spent 50-70% of income on food – prices remain up
- **Financial crisis:** from subprime to global
- **Global economic recession:** 2009 GDP growth for developing countries 1.7 % (6% in 2008)

IMF projections, October 2009				
(year over year percent change)				
			Projections	
	2007	2008	2009	2010
Advanced Economies	2.7	0.6	-3.4	1.3
Emerging Markets and Developing Economies	8.3	6	1.7	5.1
Sub-Saharan Africa	7	5.5	1.3	4.1
Central and Eastern Europe	5.5	3	-5	1.8
China	13	9	8.5	9
India	9.4	7.3	5.4	6.4

Source: IMF, World Economic Outlook, October 2009
<http://www.imf.org/external/pubs/ft/survey/so/2009/RES100109A.htm>

CGAP work monitoring effects of crisis

August 2008
CGAP Food Crisis

Client repayment capacity

Economic situation deteriorating

November 2008
CGAP Virtual Conference

Global liquidity contraction

Foreign Exchange Risk

March 2009
CGAP Global Crisis Opinion Survey + Meta analysis

Portfolio slowdown

Liquidity Constraints

Client repayment Capacity down

April 2009
Banana Skins Report

Credit risk

Liquidity constraints

November 2009
Market Intelligence on Over heated markets

Credit Risk

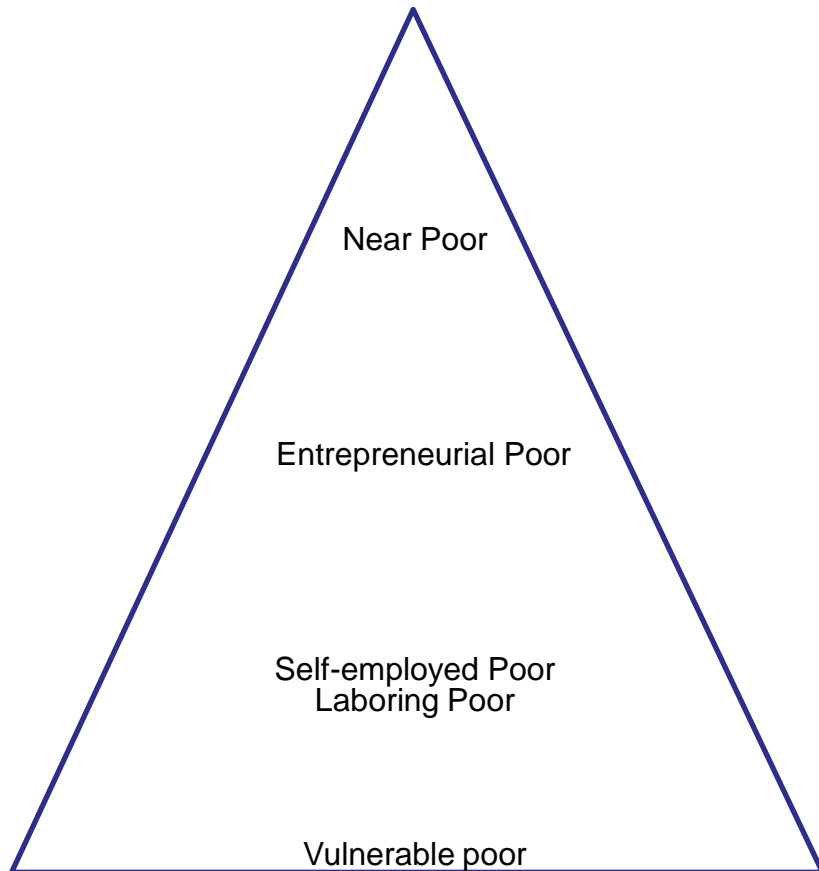
Risk management

The crisis impact on clients

Five ways clients affected by current crises:

1. Accessing credit an increasing challenge
2. Remittances mostly down
3. Food prices still high/volatile
4. Micro-business down if exposed to recession
5. Job losses

Impact on clients



Drop in disposable income

Poor clients more
vulnerable

Signs of over indebtedness
but also resilience

Limited studies on how
clients

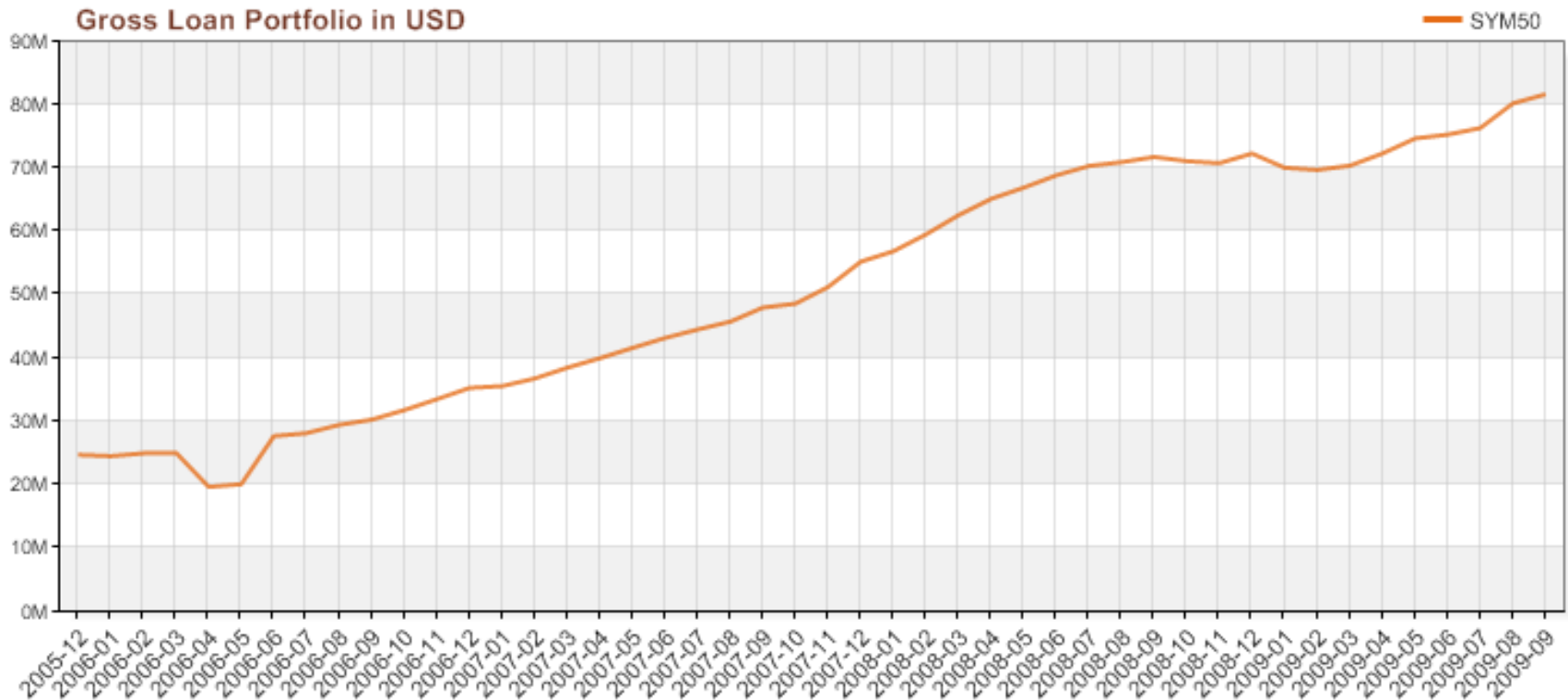
Clients response...

Six ways clients responded to current crisis

1. Eat less
2. Spend savings
3. Take children out of school (some to work)
4. Work longer hours
5. Pay loans back late
6. Additional borrowing

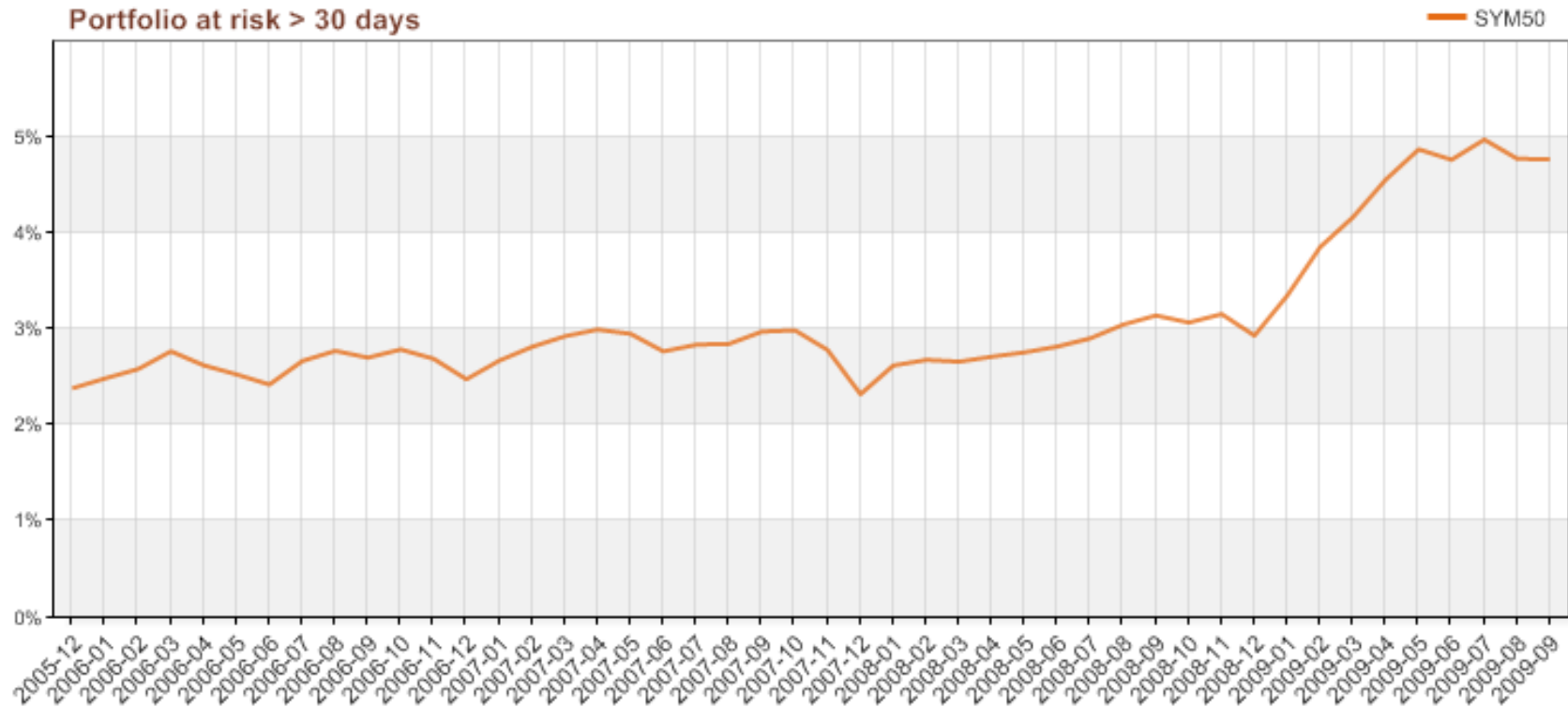


Signs of stress for MFIs: Slow down in growth



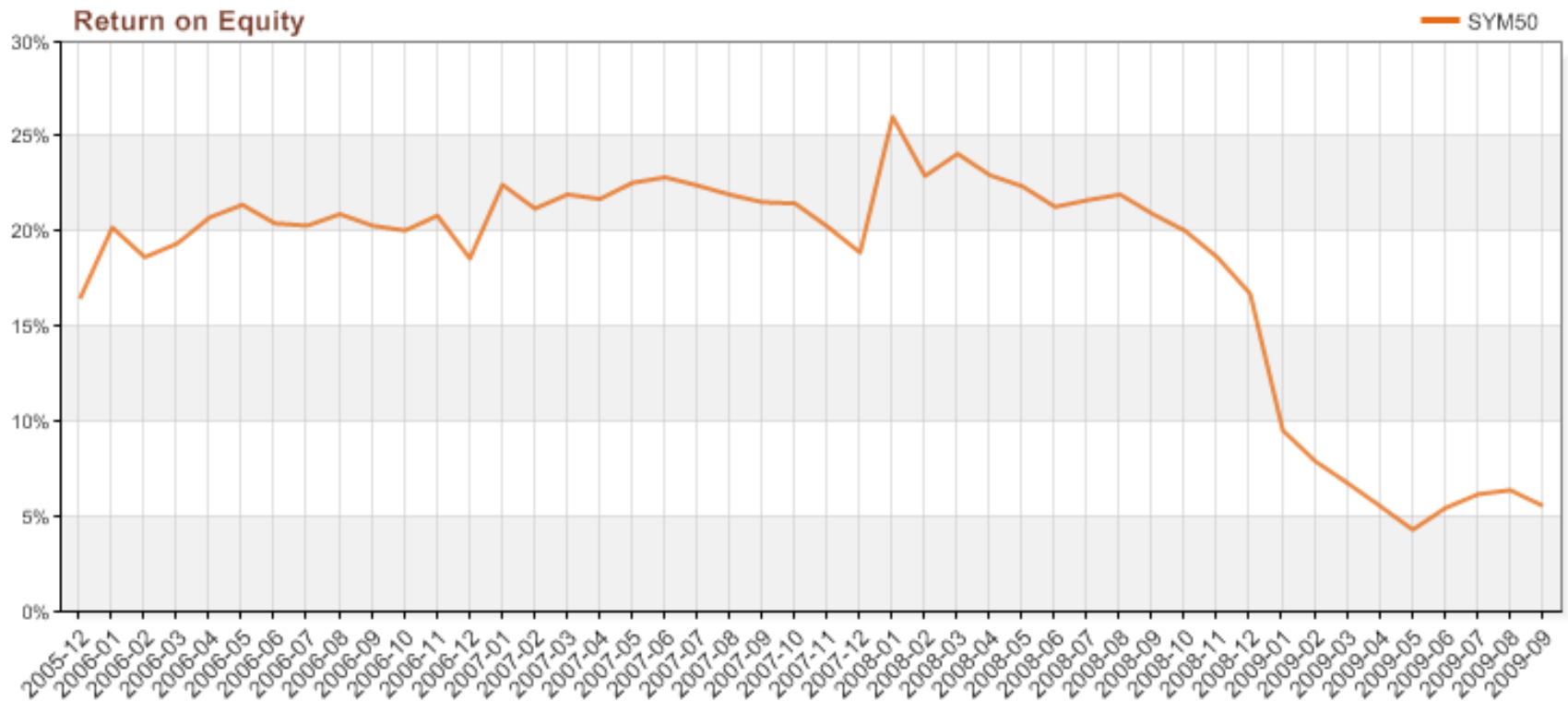
Source: Symbiotics SYM50 Index

..Portfolio at Risk is going up



Source: Symbiotics SYM50 Index

...and Return on Equity going down



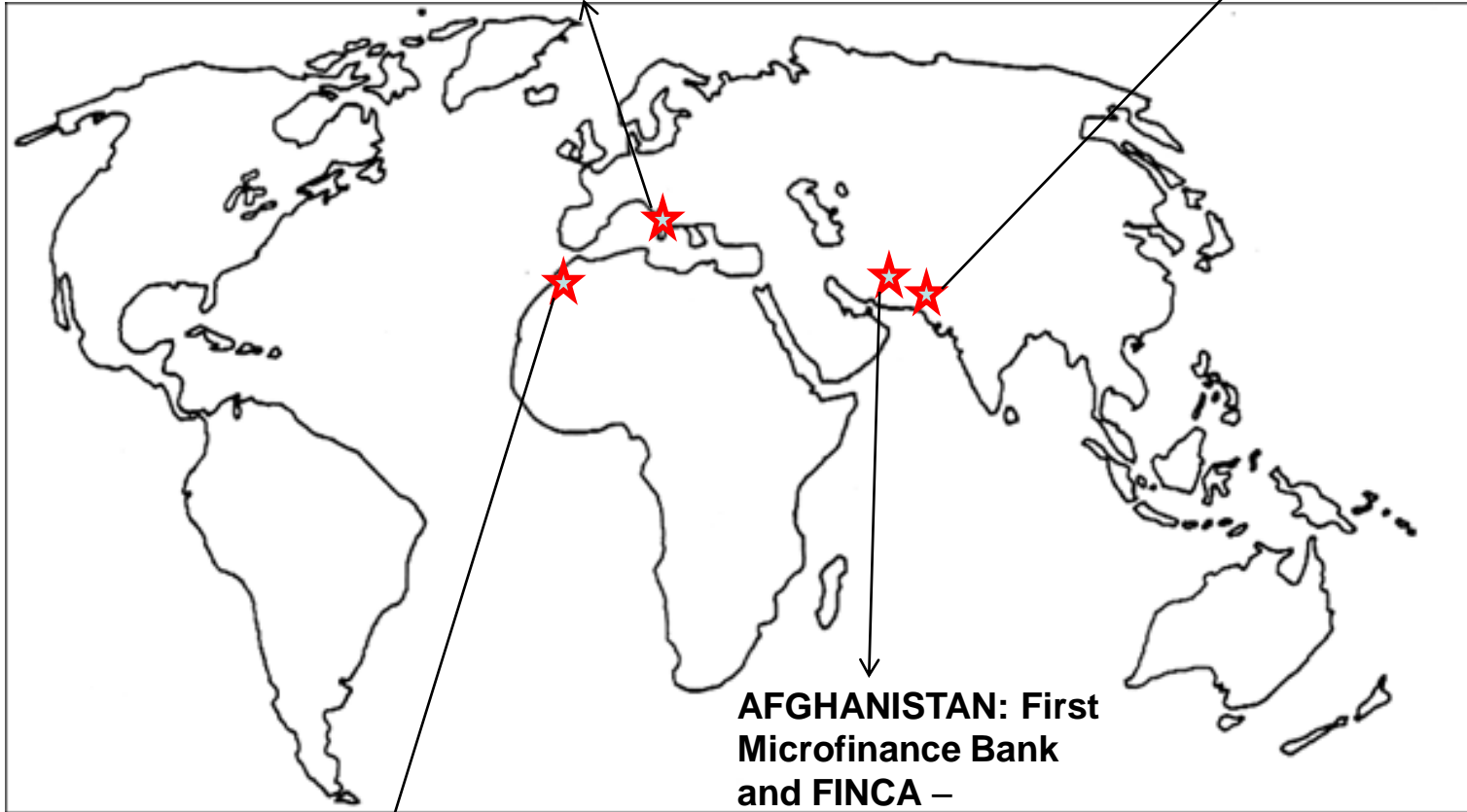
Source: Symbiotics SYM50 Index



MFIs under stress

MONTENEGRO: Erste & Steiermarkische Bank and Opportunity International Initiate Cooperation

PAKISTAN: Kashf Foundation.

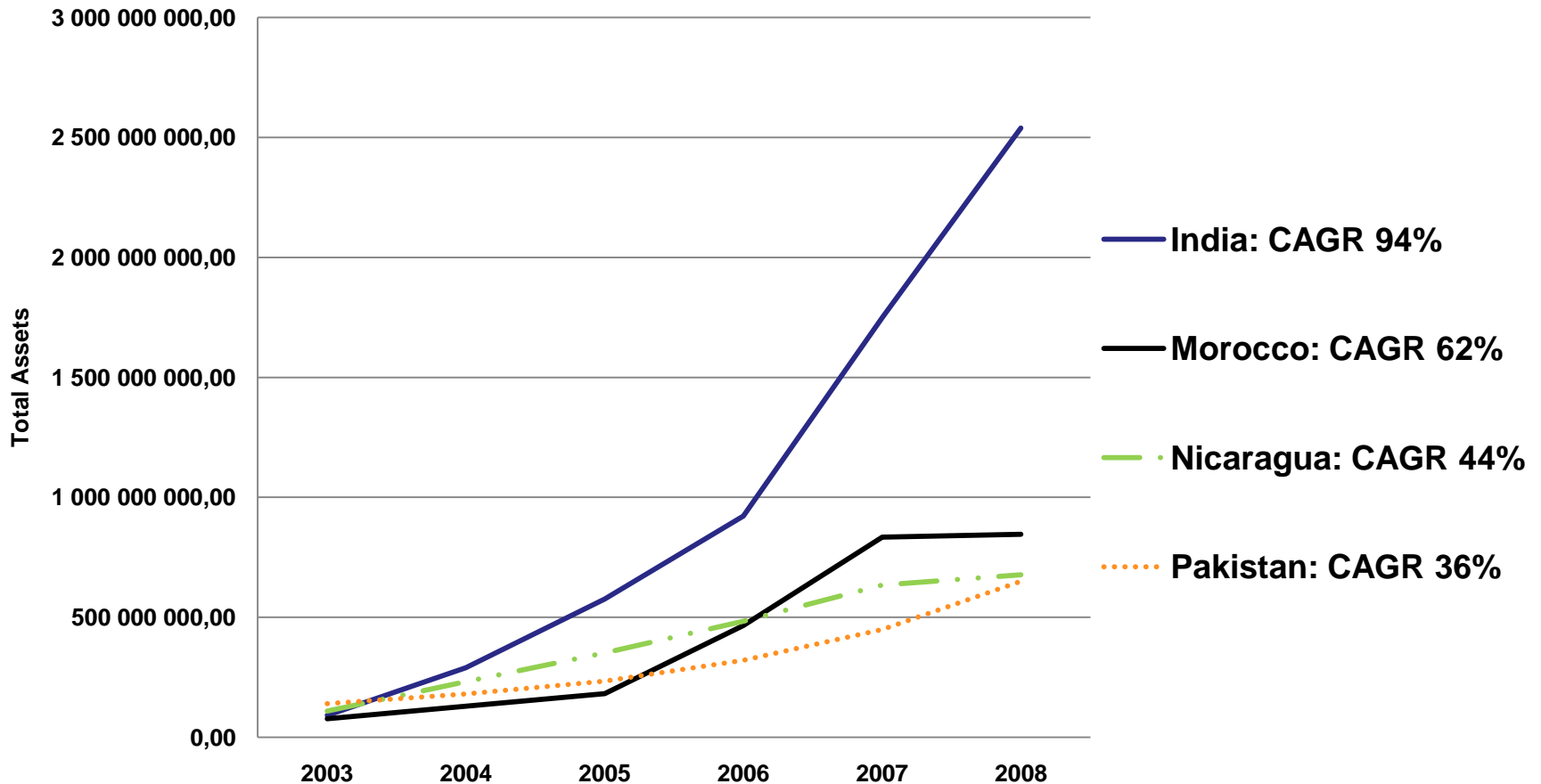


AFGHANISTAN: First Microfinance Bank and FINCA –

MOROCCO: Foundation Zakoura.

...crisis revealed uncontrolled growth

Total Assets and Cumulative Growth Rates



New risk landscape

FIVE MAIN **BANANA SKINS** according to the industry:

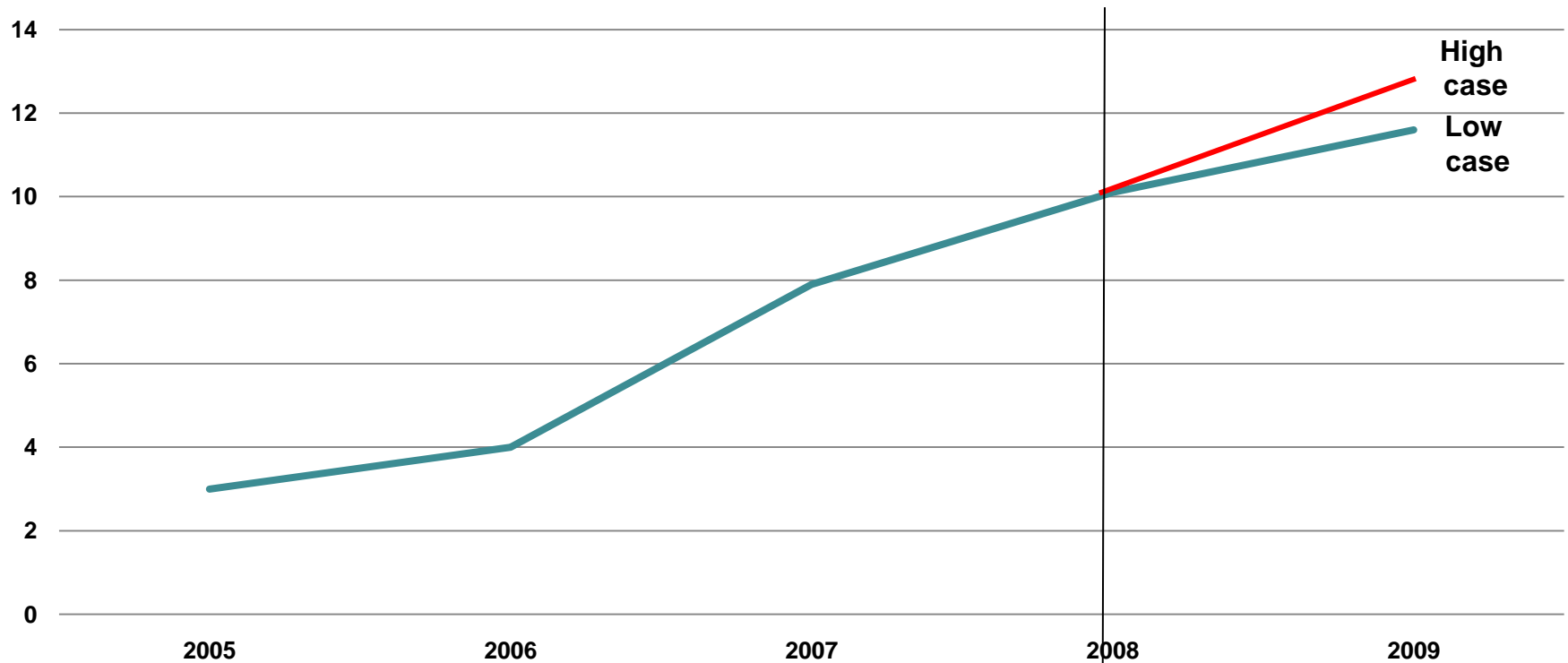
1. Credit risk (10 ranking previous year)
2. Liquidity (20)
3. Macro-economic trends (23)
4. Management quality (1)
5. Refinancing (28)

Areas of
vulnerability
for MFIs

- ➔ Rising **credit risk** and increasing **over indebtedness** of clients
- ➔ Threats to **funding** and liquidity
- ➔ Potential damage to MFIs **reputation**

...but crisis has not impacted foreign capital investment

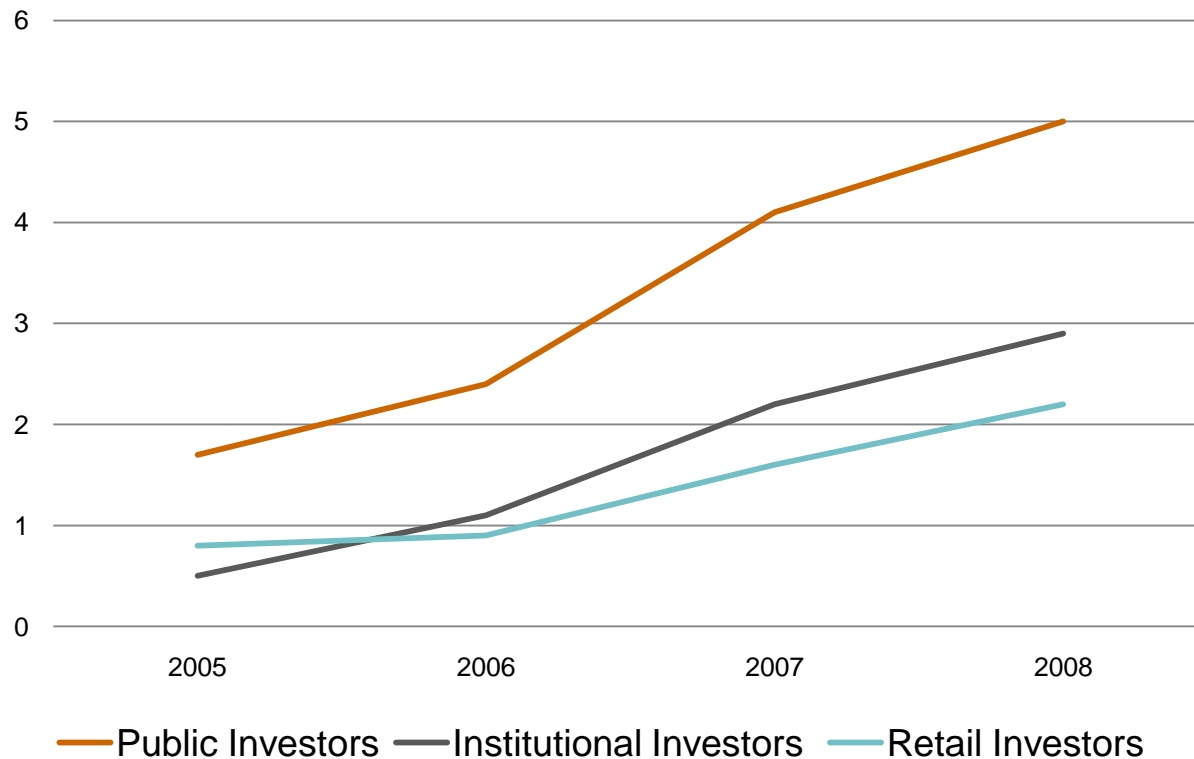
Stock of Foreign Capital: Commercial Debt and Equity



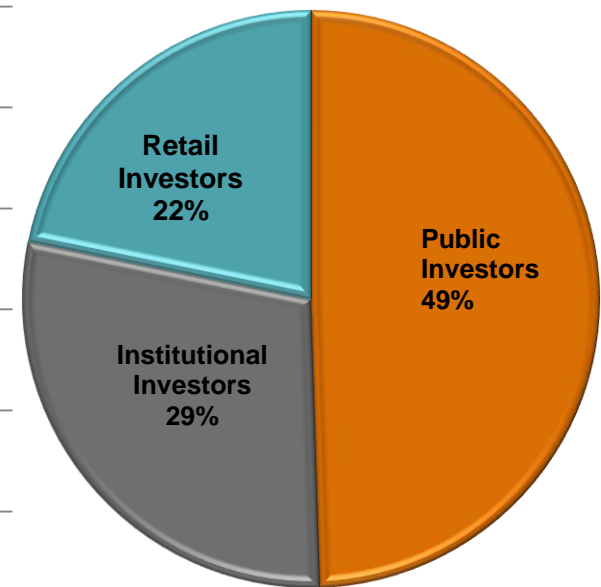
Source: CGAP Foreign Capital Investment Research

and public investors still dominant

Investment in Microfinance (USD bn)



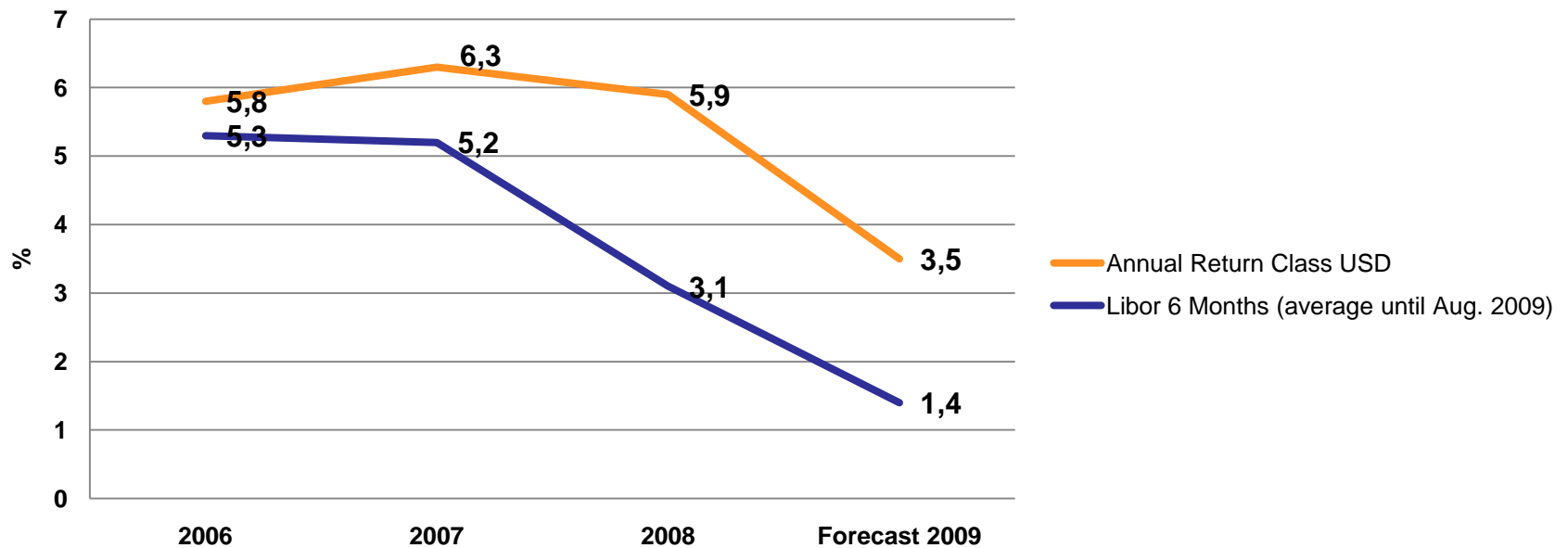
Microfinance investors 2008



Source: CGAP Foreign Capital Investment Research

Return for fixed income funds dropping

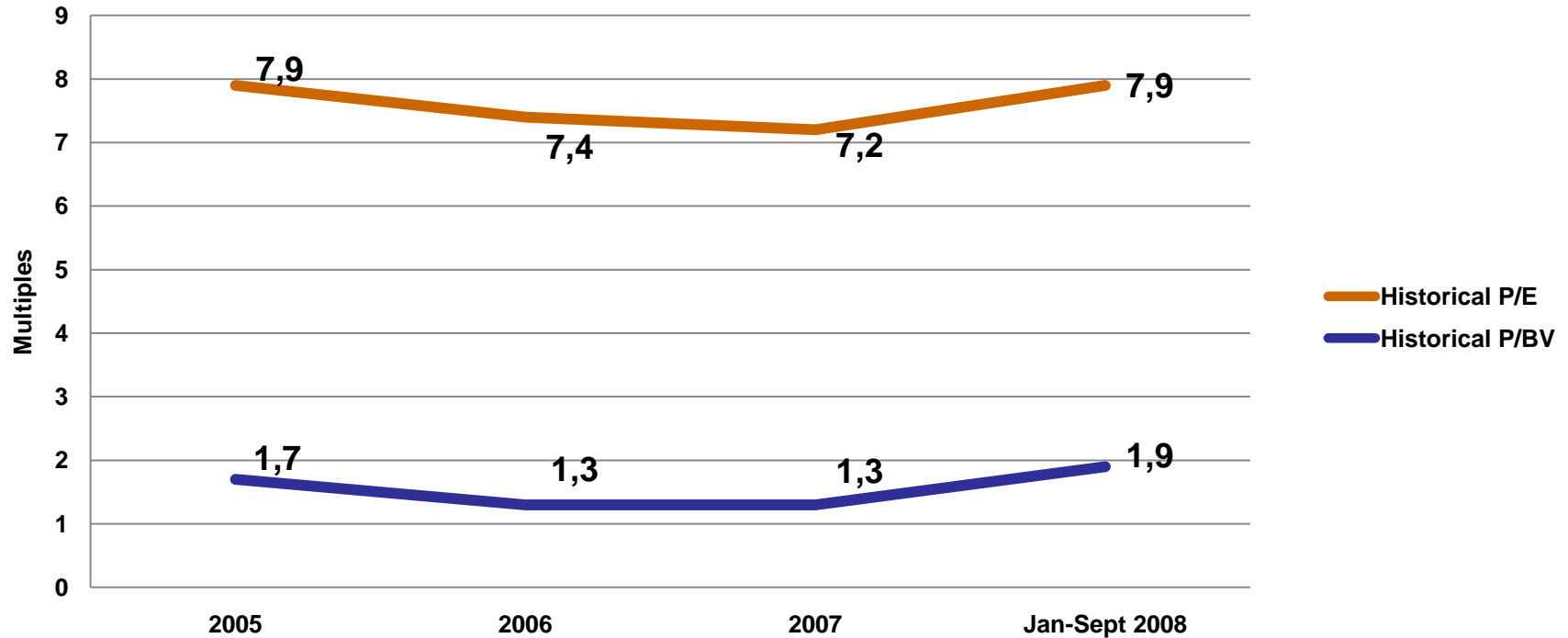
Performance of Registered Fixed Income Mutual Funds



Source: CGAP MIV Brief 2009 and http://www.wsjprimerate.us/libor/libor_rates_history.htm

but equity pricing still up in 2008

Valuations 2005-2008 (median)

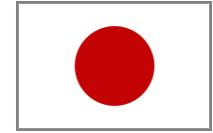


Source: JP MORGAN/CGAP Equity Valuation Paper. Sample size: 2005 (28), 2006 (37), 2007 (37), 2008 (38)

Predictions

- **Slower growth**, lower returns
- Severe **delinquency crisis** in some markets
- More emphasis **on risk management**
- More attention to **clients over indebtedness and impact**





BILL & MELINDA GATES foundation



Advancing financial access for the world's poor

www.cgap.org

www.microfinancegateway.org



MINISTRY FOR FOREIGN AFFAIRS OF FINLAND



FORD FOUNDATION



Is microfinance resilient to the global crisis?

The story goes...

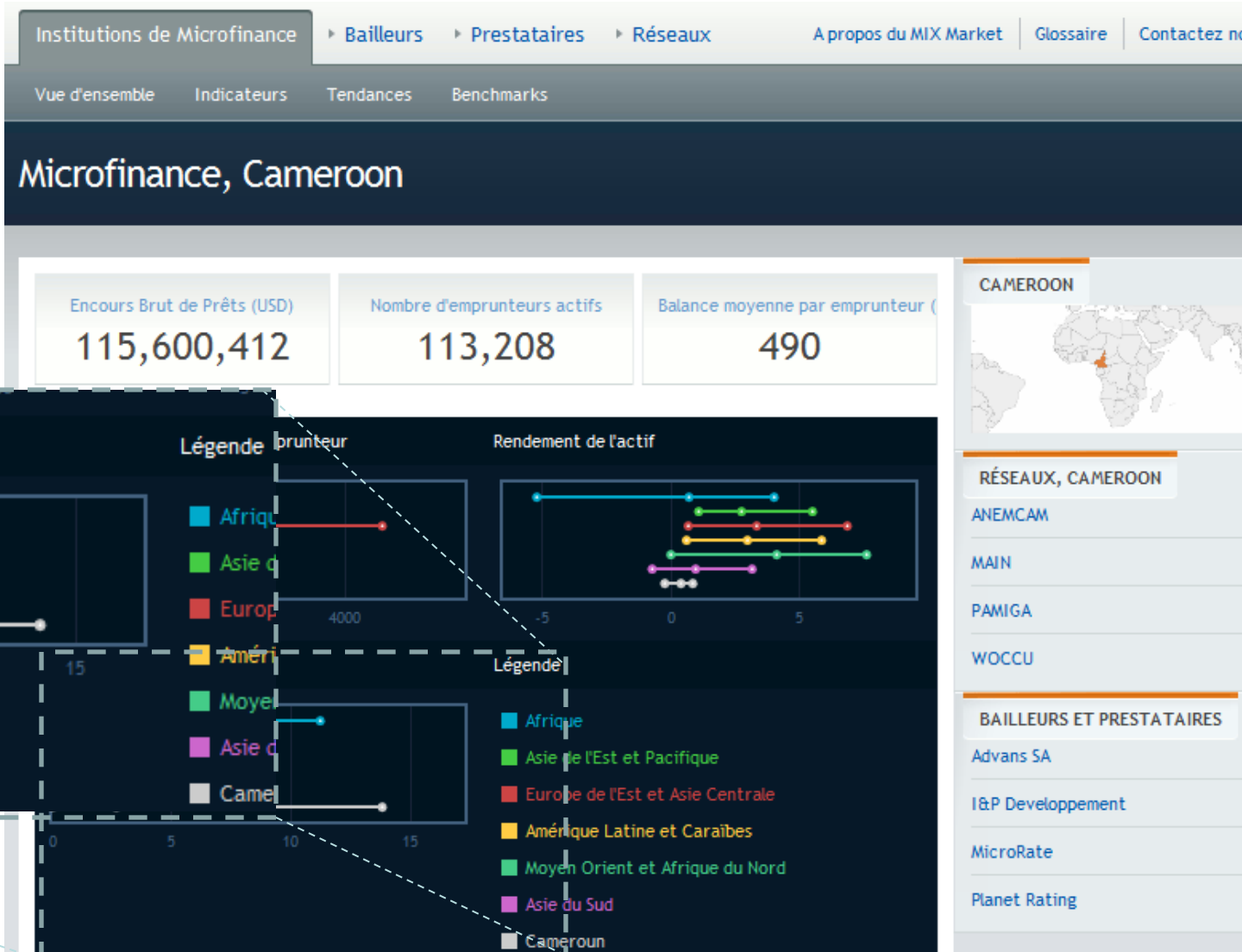
No relationship between changes in GNI per capita and asset quality of MFIs

Borrowers operate in the cash-economy, thus less affected by the global recession

Microfinance strong fundamentals: decorelated from financial markets

LE MIX EST EN Français... Et en Espagnol...

Example: Cameroon Country page



MIX, the platform to track performance and risk...

Example: Morocco PAR>30 trend data

OUR WORK MIX MARKET English Go

mi Market
The source for data on the global microfinance sector

Microfinance Institutions Funders Networks Service Providers About MIX Market Glossary Contact us

Overview Indicators Trends Benchmarks

Microfinance Institutions

Download data Print this page

Compare MFI performance with year-on-year trends. To change the indicator for comparison, click the button and select your indicator. For examples you can filter on the cost per borrower in Pakistan over the past 4 years.

Indicators Portfolio at risk > 30 days Years 2005-2009 Go

Showing 10 MFIs.

Name	2005	2006	2007	2008
Al Amana	0.16%	0.48%	1.29%	3.73%
Al Karama	0.58%	0.59%	0.37%	2.34%
AMDS	0.76%	0.73%	3.25%	2.61%
AMSSF/MC	0.62%	0.95%	1.63%	3.74%
ARDI	—	3.54%	2.80%	5.39%
ATIL	3.95%	—	8.62%	—
FBPMC	0.17%	0.28%	0.46%	3.00%
FONDEP	0.30%	0.47%	0.48%	2.46%
INMAA	2.35%	2.30%	1.26%	—
Zakoura	0.29%	0.25%	2.87%	11.07%

Network

- ABCRED
- ACCION
- ACDI/VOCA
- ADRA
- AEMFI
- AFMIN
- AIM
- AISFD-CI

Country

- Afghanistan
- Albania
- Angola
- Argentina
- Armenia
- Azerbaijan
- Bangladesh
- Benin

Apply

SHARE THIS PAGE

Web: <http://www.mixmarket.>