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PRESS RELEASE

Economic crisis presents microfinance with stress test New survey identifies top risks facing the industry

The resilience of the global microfinance industry will be put to the test by the economic crisis, according to a new survey of the risks to the business, **Microfinance Banana Skins 2009**. Far from being insulated from the economic mainstream as traditionally thought, microfinance could face a fall in growth and funding because of the global recession and declining investor confidence.

This will present the industry with its first major stress test since it emerged in recent decades as a fast-growing provider of small-scale financial services to the world's poor.

The survey, published by the CSFI and sponsored by Citi Foundation and the Consultative Group to Assist the Poor (CGAP) and supported by the Council of Microfinance Equity Funds (CMEF), was designed to identify and rank the main risks, or "Banana Skins" facing the industry at a time of economic crisis and change. It reflects the views of more than 400 practitioners, investors, regulators and analysts in 82 countries.

The survey shows that the greatest risks all stem from the crisis: a surge in bad loans, shortages of liquidity and funding, and declining profitability. Other top concerns surround the ability of microfinance institutions (MFIs) to manage their way through the crisis because of weaknesses in management and corporate governance.

The survey updates a previous poll carried out in early 2008 at the beginning of the crisis, and shows how sharply risk perceptions have changed since then. Most of the risks which are now seen as threats to the sector's prospects, such as the world recession and the credit crunch, were considered negligible only 18 months ago.

David Lascelles, survey editor, said: "These findings turn the earlier survey on its head. Last year's result reflected the traditional view that microfinance operates in a world of its own with abundant funding and loyal customers. But the crisis has shown that it is also exposed to the shocks of the 'real economy'".

Microfinance Banana Skins

2009

(2008 position in brackets)

Biggest risks	Fastest risers
1 Credit risk (10)	1 Credit risk (5)
2 Liquidity (20)	2 Macro-economic trends (24)
3 Macro-economic trends (23)	3 Competition (1)
4 Management quality (1)	4 Refinancing (27)
5 Refinancing (28)	5 Liquidity (23)
6 Too little funding (29)	6 Too little funding (29)
7 Corporate governance (2)	7 Political interference (3)
8 Foreign currency (12)	8 Foreign currency (18)
9 Competition (7)	9 Profitability (20)
10 Political interference (9)	10 Interest rates (9)
11 Interest rates (6)	11 Reputation (11)
12 Profitability (22)	12 Corporate governance (12)
13 Inappropriate regulation (3)	13 Mission drift (7)
14 Staffing (5)	14 Fraud (14)
15 Managing technology (8)	15 Depositor confidence (-)
16 Transparency (11)	16 Ownership (8)
17 Reputation (19)	17 Unrealisable expectations (10)
18 Unrealisable expectations (13)	18 Management quality (17)
19 Mission drift (14)	19 Back office operations (25)
20 Fraud (15)	20 Staffing (2)
21 Depositor confidence (-)	21 Transparency (26)
22 Back office operations (18)	22 Inappropriate regulation (21)
23 Ownership (17)	23 Managing technology (13)
24 Product development (24)	24 Product development (19)
25 Too much funding (21)	25 Too much funding (4)

Bob Annibale, Global Director of Citi Microfinance, said: "This year's report clearly illustrates a dramatic shift in perceived risks within microfinance with credit and liquidity issues rising to the top. MFI clients are being challenged by rising food and energy prices and declining remittance flows. However, strong stakeholder support has ensured that where funding and performance problems exist, these are largely being addressed. Financial inclusion continues albeit with realistic growth expectations, continued sustainable scaling and investment in the sector."

Elizabeth Littlefield, CGAP's chief executive officer, said: "This year's Banana Skins survey highlights cracks and fissures in microfinance that have surfaced with the global economic crisis. But, the sector is basically healthy with

strong fundamentals and a solid, reliable and growing client base. Tackling immediate concerns about credit risk, liquidity is important, but remaining focused on longer term issues of management bench strength, governance, and asset and liability management capacity remains crucial for the future."

The Banana Skins report says that the crisis is global in its impact. Every one of the 82 countries participating in the survey reported that financial and economic conditions had worsened, and were affecting local MFIs, though with regional variations.

The responses also showed a strong link between all the major risks, with economic recession potentially hitting growth and profitability, in turn affecting the confidence of investors in microfinance, creating funding difficulties which affect the viability of MFIs. There is a risk that some MFIs will fail.

There is also strong concern that the recession will increase political interference in the industry as governments try to control the availability and cost of microlending, or even encourage borrowers to default. The main sources of comfort are that MFIs have traditionally shown resilience to stress, and could emerge from the crisis with a better reputation for looking after their customers than mainstream banks. The risk of losing depositor confidence was not seen as high.

The 45-page report provides a commentary on each of the 25 risks that were identified, and breaks down responses by type and region, providing a detailed view of the concerns by geography and different classes of respondent.

Microfinance Banana Skins 2009 is available free from CSFI, 5, Derby Street, London W1J 7AB, UK. Tel: +44 (0)20 7493 0173, or via email: info@csfi.org.uk.

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Notes to editors

Microfinance is the practice of providing small scale financial services to the world's poor, mainly savings, loans and insurance. The modern business originated in Asia 30 years ago, and has grown rapidly to the point where there are now an estimated 10,000 MFIs in the world spread across all continents. The 1,200 microfinance institutions who report to the Microfinance Information eXchange (MIX) have 53m borrowers and 64m savers, and numbers are growing by 25 per cent a year, more in some countries. Total assets of these MFIs amount to \$33bn.

CSFI is an independent London-based think tank which researches trends in the financial sector. www.csfi.org.uk

CGAP is an independent policy and research centre housed in the World Bank and focused on access to finance issues. www.cgap.org

Citi Microfinance serves more than 100 microfinance institutions, networks and investors as clients and partners in over 40 countries with products and services spanning the financial spectrum to expand access to financial services for the underserved. <http://www.citi.com/citi/microfinance>

CMEF is a membership organization that brings together the leading equity funds that invest directly in MFIs in the developing world. www.cmef.com