

CSFI

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Microfinance Banana Skins: A round-table discussion of the new CSFI survey. Held on Wednesday, November 18 at Watermen's Hall, 16-18 St Mary-at-Hill, London, EC3R 8EF from 12:30-2:15 pm.

The round-table discussion began with a review of the findings from the June 2009 Microfinance Banana skins. One speaker started with an overview of what constituted a Microfinance institution (MFI) and noted the diversity of institutions that came under that sector; deposit and non-deposit taking institutions and those that offered specialized services. He felt that more clarity was needed in definition. Another speaker highlighted the fact that an MFI could encompass anything from a small NGO up to those that have evolved into full banks.

Concern about the impact of the global recession on MFI's was clearly one of the main causes of concern in the most recent survey. Anxieties over management capabilities evident in the earlier Banana skins report had been overshadowed by the realities of the more difficult environment that MFI's had found themselves operating in. The worry was that the pressures of global recession would test MFI's and find them wanting.

Another speaker also pointed to the consequences of the global crisis but noted that MFI's had been fairly resilient and the impact had been greatest on those that were most integrated into the global financial system. So while there were some large Microfinance institutions that borrowed across borders, the majority borrowed nationally and were not facing too much of a liquidity crisis. They had, however, faced increases in the cost of funds but that was in line with the increased credit risk.

Those institutions that borrowed and lent cross borders were required to have a rating from the Rating Agencies. And one speaker noted that falls in asset quality, lower household incomes, increases in unemployment and a fall in remittances had had a negative impact on rated MFI's. There were also issues regarding concentrated loans portfolios (as many MFI's focussed on a particular sector or industry). These pressures along with foreign currency risk, political risk, over-indebtedness in some regions and evidence of some fraud and mis-management had certainly led to increased pressure. She, however, felt that the mitigating factors were that although there had been some decline in asset quality, this was from low levels and that, overall, MFI's were still better off than much of the banking sector.

There was also unease about changes in the structure of the industry and some confusion over the mission/roles of MFI's. As microfinance institutions became more professionalized, would something be lost? Was increased professionalisation compatible with poverty reduction? What were the priorities; poverty alleviation or financial inclusion? These tensions were often reflected in the competing pressures from investors and the needs of clients.

Reputation was another concern that was highlighted by one of the speakers. Although this varied depending on the country, there was some worry about political interference and mission drift. A number of respondents had indicated that the MFI's would have to justify and quantify the positive impact they were having on the communities within which they operate.

Another speaker noted that MFI's had come out of a period of rapid growth and were now experiencing all the associated risks, coupled with concerns over access to credit. Whilst noting the regional variations, he also highlighted the fact that worries over credit risk had soared to the top of the survey. And though concern had increased, many MFI's found themselves without the tools to address it, i.e. the lack of credit bureaus in many places and historical data.

The speaker felt that the pressure of rapid growth made issues of management quality even more important. The transition from a smaller to a larger institution required concomitant changes in management and this is where he felt the sector needed to focus.

Giving a review of the regional variations, he noted that in Africa, the region least impacted by the turbulence in international financial markets, management quality remained the major concern. The region had also been impacted by the increased cost of food and fuel and a slump in remittances. In Central and Eastern Europe falls in credit ratings were a major concern. In Latin America, the region with the longest history of MFI's and the biggest range of institutions, concerns over credit risk moved to the top of the list. Although, as the speaker noted, if issues of credit risk and liquidity moved to the top of your list, the crisis had already hit you.

A discussion also followed on the possible benefits of MFI's to inner city populations in the developed world, who – without access to formal credit – often turned to loan sharks for assistance. Financial exclusion also existed in the UK and the numbers 'falling out of the system' were rising.

There was also a brief discussion about the goals of borrowers in the developing world. Contrary to popular belief, loans to fund entrepreneurial activity were only a small fraction of what clients wanted from MFI's. Often what they wanted to do first was save. And much borrowing was to smooth consumption as opposed to funding investment. The problem remained in many parts of the developing world that there were high capital thresholds to be met and regulatory barriers to overcome before MFI's could turn themselves into deposit taking institutions.

A brief foray into what the next Banana Skins survey might reveal highlighted the possible effects of increased competition, lingering credit risk problems and continued concerns over management capabilities.