

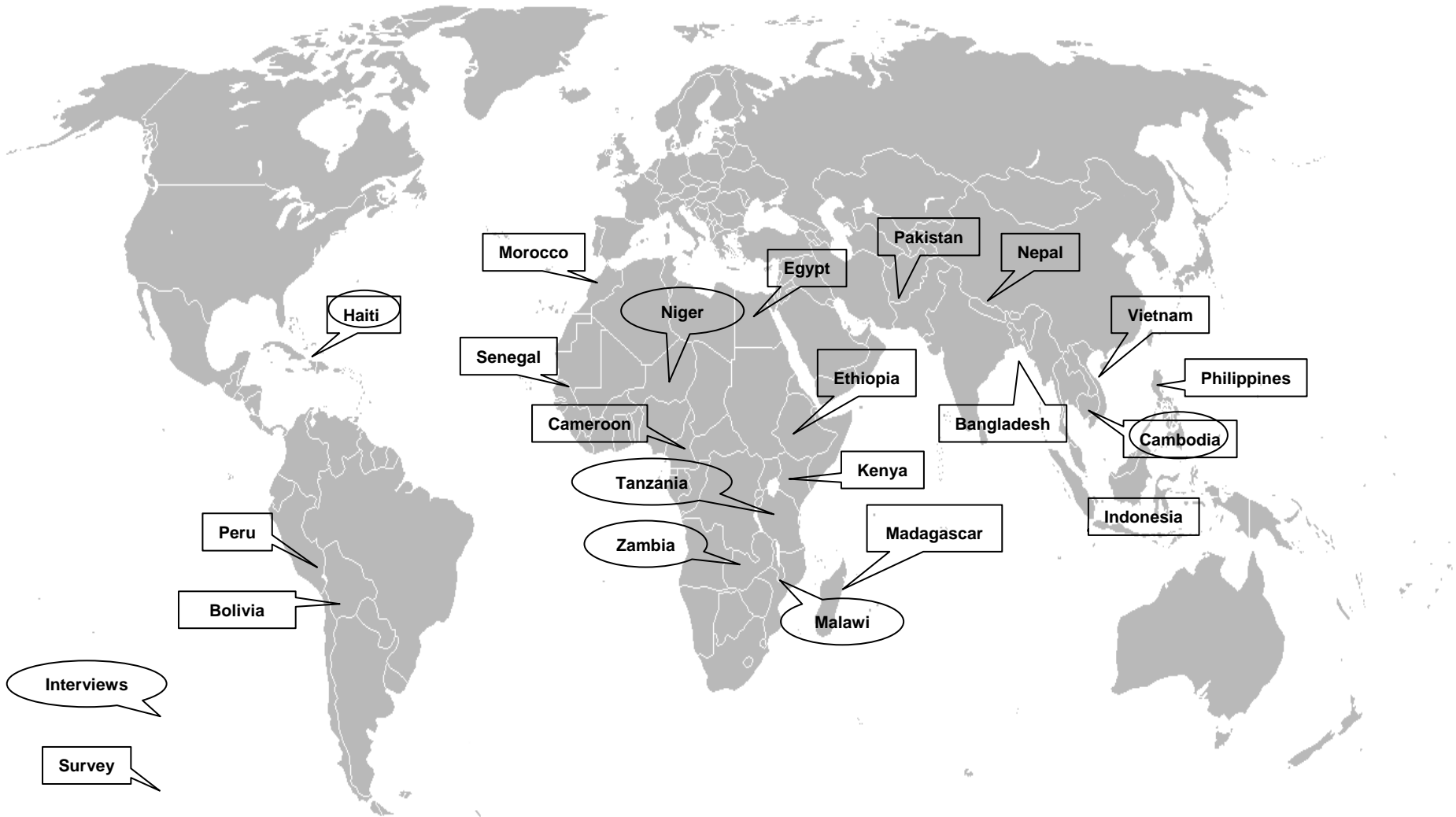


Advancing financial access for the world's poor

Impact and Implications of the Food Crisis on Microfinance

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CGAP Survey of 45 Leading MFIs

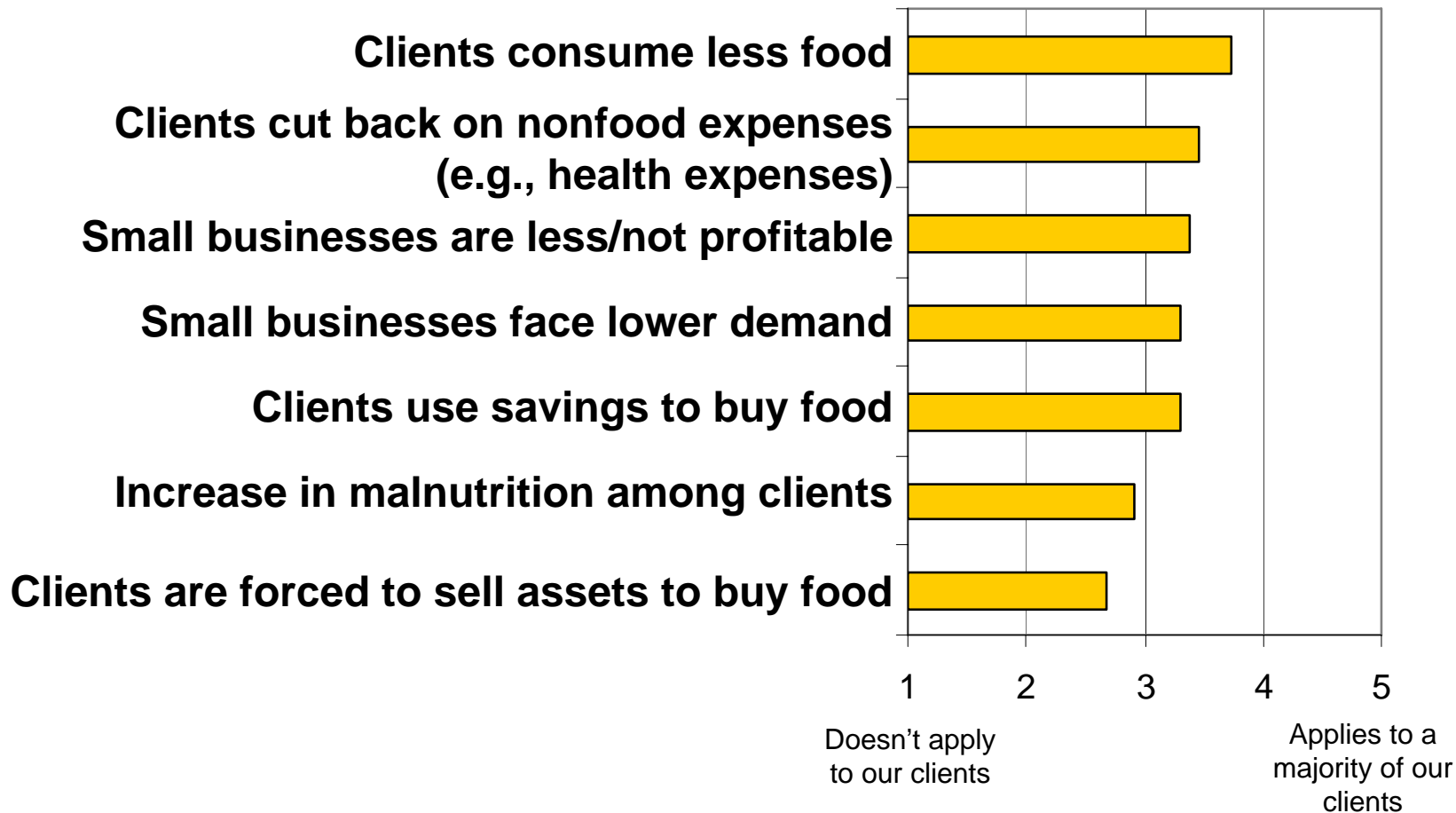


Overall Remarks

In August 2008:

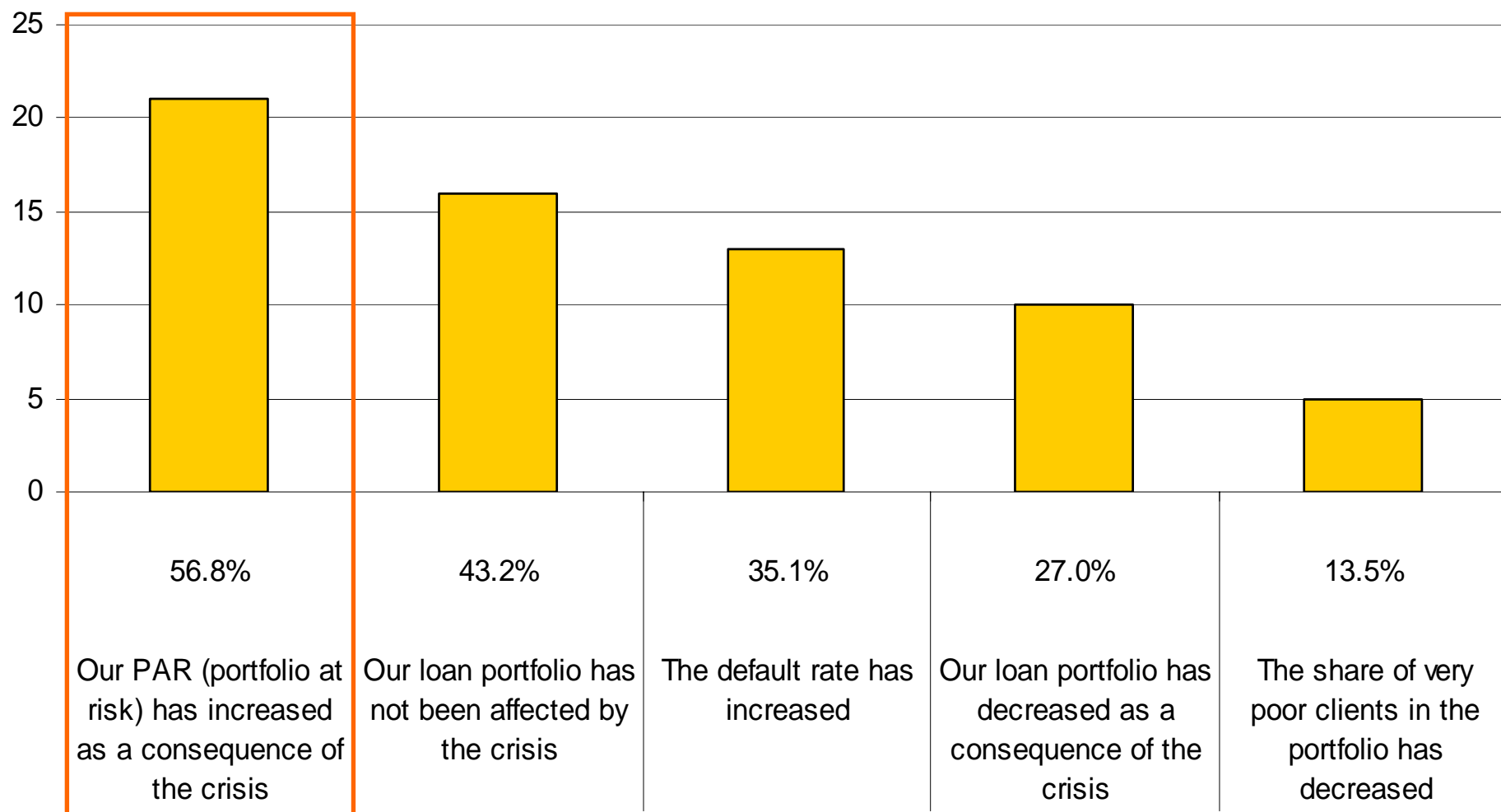
- Price increases, of varying intensities, were felt in all the countries surveyed (e.g., Haiti and Niger highly affected)
- High food prices along with high fuel prices put a double burden on poor people
- Large landowners profited; small farmers did not
- Managers felt that the worst was yet to come because farmers couldn't afford seed and fertilizer
- More people migrated in search of food and jobs

Impacts on MFI Clients



Rating Average on a scale from 1 to 5

Impacts on MFI Loan Portfolios



Other Impacts on MFIs

Most frequently reported impacts:

1. Increased operating costs (> 70% of respondents)

“We had to increase our salaries more than planned.”

Alexandria Business Association, Egypt

2. It's harder to collect savings (>50%)
3. We cannot reach our goals (e.g., expansion, diversification) (>40%)
4. We face liquidity problems (>25%)
 - Only 3 out of 45 MFIs say their organization has not been affected by the crisis

Measures Taken by MFIs

Most frequent measures taken:

1. Finding solutions case by case (>50%)
 2. Applying a more flexible loan policy (>40%)
 3. Increasing loan sizes to compensate for inflation (>30%)
 4. Rescheduling loans (>25%)
 5. Working with relief organizations (>25%)
 6. Reducing interest rates (>20%)
 7. Reducing savings requirements (>15%)
- Only 4 out of 45 MFIs give out food

What Role Should Microfinance Play?

- Microfinance should serve as an instrument to increase agricultural production (>75%)
- MFIs should adapt their policies to alleviate the consequences of the food crisis as long as doing so does not affect their financial sustainability (>75%)
- MFIs should focus on expanding access to finance and not on undertaking relief activities (>50%)
- MFIs should take up emergency measures to help people suffering from the crisis (>40%)
- MFIs should serve as a channel to distribute aid (food/money) (>30%)

Preliminary Conclusions

1. MFIs should focus on their core business in times of crisis, while managing the risks of bad debt
2. MFIs can support relief efforts in appropriate ways

“We sponsor food, but don’t distribute it ourselves. We don’t want to dilute our image. We are a financial service provider, not a relief organization.

Pride, Tanzania
3. MFIs need to adopt robust risk management systems

Preliminary conclusions

4. In times of food crisis what can governments do?
 - Maintain macroeconomic stability to avoid high inflation that can affect clients and MFIs
 - Strengthen social safety nets and food security through nutrition and social protection programs
 - Promote agriculture production without introducing interest rate subsidies

Preliminary conclusions

5. Donors and investors can help MFIs better cope with current and future food crises:
 - Help MFIs adopt better risk management
 - Foster the development of long-term funding sources (e.g., deposits)
 - Help MFIs better meet the needs of farmers through lessons learned from worldwide experiences



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www.cgap.org

www.microfinancegateway.org



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