



IFC

**International
Finance Corporation**
World Bank Group

Microfinance: “The Future in Asia: Between Social Mission and Business Opportunity”

The 10th German World Bank Forum
“The Asian Century: Challenges and Opportunities”
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Key questions

- How is the financial crisis affecting microfinance? In past crises, microfinance has proven to be relatively robust, yet can we expect the same this time around?
- How is the crisis affecting the debate around microfinance as a social mission vs. a business opportunity? Will there be enough socially oriented investors to meet the estimated (\$500 bn) worldwide demand for microfinance?
- Some have pointed towards microfinance as the next “sub-prime crisis”. Will private capital introduce competition and lower interest rates and profits in microfinance or will it lead to unscrupulous lending practices similar to the sub-prime debacle?
- Comment on some of the new business opportunities that your institution is pursuing - e.g. commercialization, foreign funds, new technologies, products and/or delivery channels and explain what the current crisis means for the future growth and expansion plans of MFIs? What new products are MFIs tailoring to meet the crisis management needs of clients?
- Propose a plausible MF model that integrates the divergent views of business opportunities and social mission for microfinance.

The many dimensions of the crisis

- Growth: What do you predict for microfinance in the present financial crisis? What factors will help MFIs weather the current crisis? What do revised expansion plans portend for high-risk frontier markets? How should MFIs ensure that long-term goals for growth and efficiency are not overshadowed by short-term crisis response plans?
- Financing: How is the crisis affecting decisions of socially responsible investors, charitable giving, and foreign aid flows? Yunus is a key proponent of local funds. Given the circumstances, is an over reliance on deposits healthy? What steps are your respective institutions taking in the event of a deposit run? What are the risks of local funding versus foreign currency funding?
- Inflation: What are the real dangers of the financial crisis for microfinance clients? How is the global food crisis affecting microfinance clients? What should micro entrepreneurs do in the face of rising capital needs? Should we be concerned about aggressive lending practices in microfinance now, especially with an increase in consumption financing?
- Crisis Control: Investor panic and consumer confidence crisis has dominated recent headlines. To what extent has such panic been witnessed in the MFI world, and what steps should be taken to deter such panic among MFI depositor clients? How will you (as an institution) prepare, and help your clients prepare for the fallout from this crisis (in terms of education on managing finances better, understanding implications of market events etc)?
- Key Lessons: What can we learn and apply from the past crises in Asia and Latin America and their impact on MFIs? How is this crisis different from the past crises?

Some key points from the discussion

- For microfinance clients, this is not the first crisis, but the second one. The first and maybe more important crisis was the food crisis, and despite the significant negative impact of that crisis in some regions, microfinance clients have proven to be resilient.
- Also during this crisis, we expect to the microfinance sector to be reasonably resilient compared to many other asset classes. One new risk factor has emerged as a result of the inflow of cross-border private financing for microfinance institutions in recent years, some of which may seek withdrawals. However, patient private investors as well as multi- and bi-laterals will likely be an important source of stable long-term funding sources to weather the crisis.
- Going beyond credit will be important during the crisis, including developing sound saving strategies. While this may add complexity in managing deposits and related risks, it provides for an important opportunity of funding diversification.
- Responsible lending practices will gain in importance, as the fall-out of the sub-prime crisis may project on microfinance as an asset class.
- Overall, the crisis may present an opportunity to focus on those segments of emerging markets economies in Asia that need support the most.