

your hub to euroland

Microfinance

Can fast growth meet sustainability ?

your hub to euroland

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Elseware

www.paris-europlace.net

1 - Microfinance reputation fuels funding

- Attractive reputation (ethical)
 - Muhammad Yunus Nobel Prize
 - Effective (or assumed) social mission

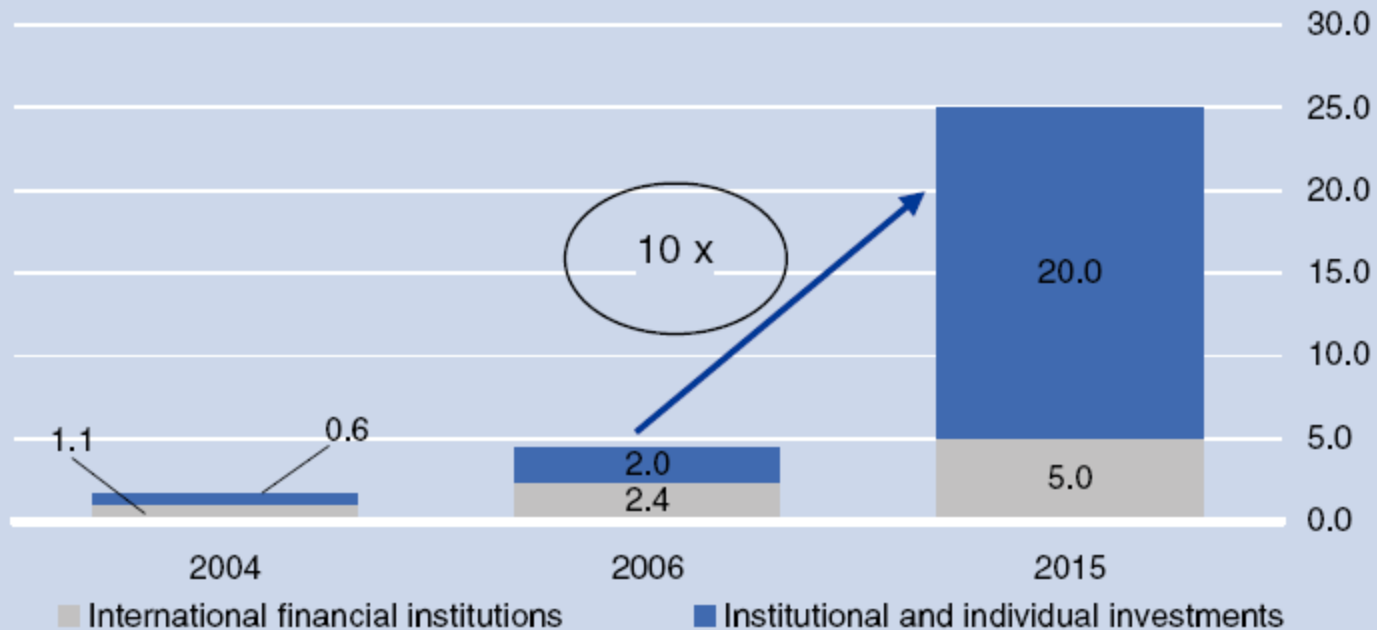
- Attractive reputation (financial)
 - Excellent repayment rate
 - Weak correlation with other assets : resilience to economic shocks

- Huge potential for growth
 - Less than 200 million people served
 - Potential target from 1 to 3 billion

2 - Private investment fuels growth

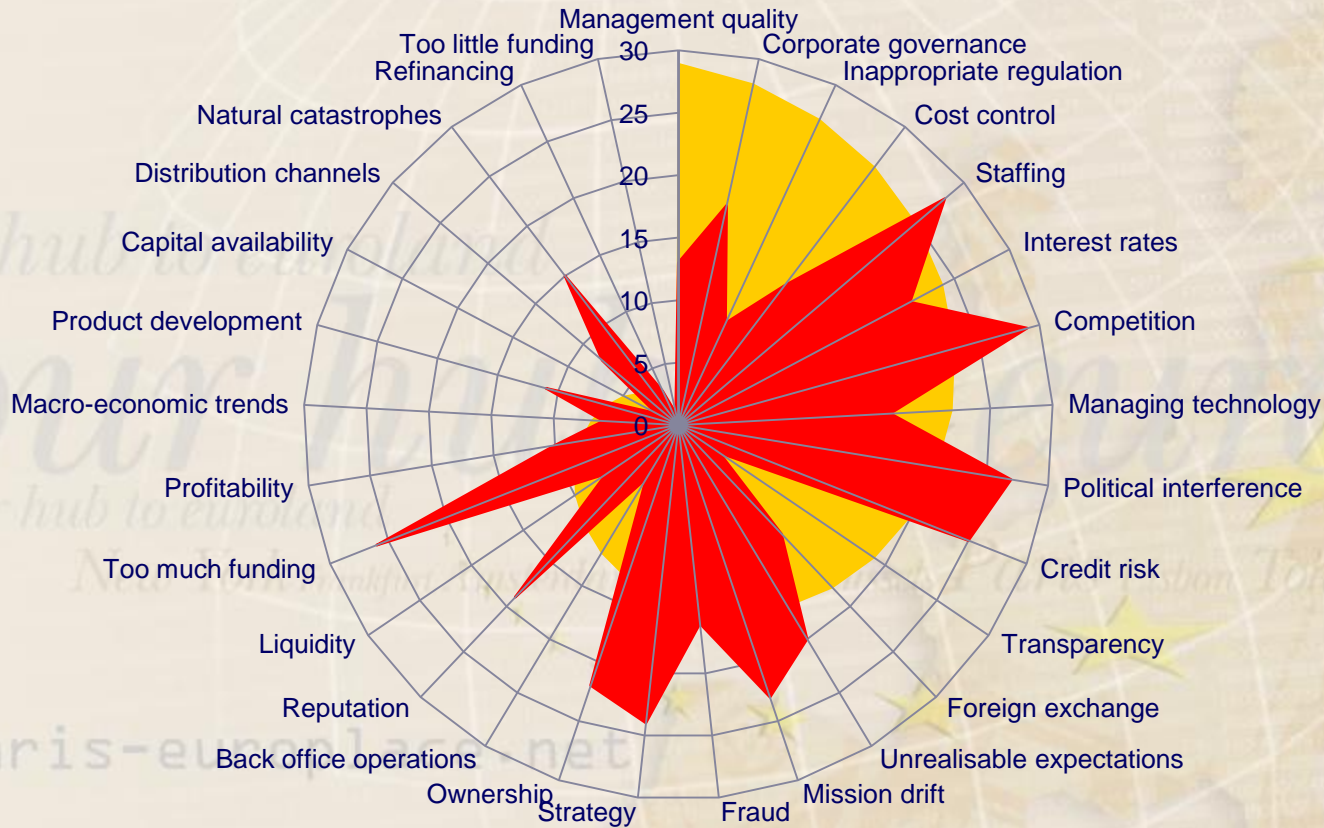
Forecast of institutional and individual investments in microfinance

USD bn



Source: DB Research

3 – Growth fuels new risks



Source : CGAP Banana Skins 2008

4 – Killing the golden goose

Will new risks destroy MF reputation ?

- Ethical reputation
 - Increased share of private funding :
 - Increases pressure for profitability
 - Increases the risk of social mission drift (borrowers selection, loan recovery practices)
- Financial reputation
 - Unmanaged growth
 - Decreases the quality of credit process and repayment rate
 - Increased dependency to external funding
 - Increases the sensitivity to external risks (FX, liquidity, ...)
 - Destroys the resilience of microfinance thanks to a balanced funding
 - Increases alignment and systemic risks

5 – Can fast growth meet sustainability ?

- **Adaptive risk management is the key**
 - Growth means changes in risk profile
- **Assess and quantify all fast raising risks for MFIs**
 - Funding
 - Management
 - Competition
 - Mission drift
 - Reputation
 - etc.
- This is the scope of the « Openspace » project – a Pole Finance Innovation project.