



The Global Food Crisis: Its Impact on Microfinance Institutions and Their Clients

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What Is Extreme Poverty?

As defined by the World Bank,

- Anyone living on less than \$2 per day(ppp) is living in poverty
- Anyone living on less than \$1 per day (ppp) is living in extreme poverty

What's the difference?

It's the difference between . . .

this . . .



and this . . .



Or this . . .



and this . . .



Where is it?

- Now exists only in developing countries
- Exists in both rural and urban areas
- Very prevalent in “fragile states”

What is a Fragile State?

A state in which the government cannot or will not deliver core functions to the majority of its people, including and especially the poor.

Examples:

Angola
Somalia
Kosovo
Afghanistan
Haiti

A fragile state is characterized by:

- ✓ Weak policies, institutions, & governance
- ✓ Extended internal conflicts
- ✓ Fractured societal relations
- ✓ Corruption
- ✓ A breakdown in the rule of law
- ✓ A lack of mechanisms for generating legitimate power & authority
- ✓ A huge backlog of investment needs
- ✓ Limited government resources to meet them

Fragile States And Extreme Poverty

They account for **14%**
of the world's
population . . .

But **30%** of all the
people living on less
than \$1 a day.



**Nearly half of all children who die before
the age of five are born in fragile states!**

Examples of Countries Especially Vulnerable to the Food Crisis

- Malawi, Tanzania, Zambia, Niger, Ethiopia, Egypt, Kenya, Madagascar, Senegal, Morocco
- Haiti, Peru
- Cambodia, Nepal, Vietnam, Bangladesh, Pakistan, Indonesia, Philippines

Yellow indicates the country is also considered a “fragile” or “failed” state by the World Bank and/or Foreign Policy/The Fund for Peace

The Scale of the Problem

- In last 18 months, doubling of wheat prices and tripling of rice prices
- UN estimates the world's poorest countries could pay 40% more for food this year than last
- World Bank estimates that soaring food prices have pushed 100 million people worldwide below the poverty line
- Sparked riots in Bangladesh, Ethiopia, Haiti

Why Is This So Serious?

- The poor spend over half of income on food, sometimes as much as 80%
- That compares to 10% in Germany and even less in U.S.
- Most experts agree this is not a temporary crisis, but represents a ***permanent market adjustment***

The Impacts on Clients

- Consume less
- Businesses become less profitable
- Cut back on non-food expenses (health)
- Use savings for survival
- Increase in malnutrition
- Sell assets to keep food on the table

The Impacts on MFIs

- Increase in PAR and in defaults = Decreased financial revenue + increased operational costs = Reduced sustainability
- Decrease in average savings balances = Increased cost of capital and liquidity problems
- Demand decreases = Reductions in loan portfolio

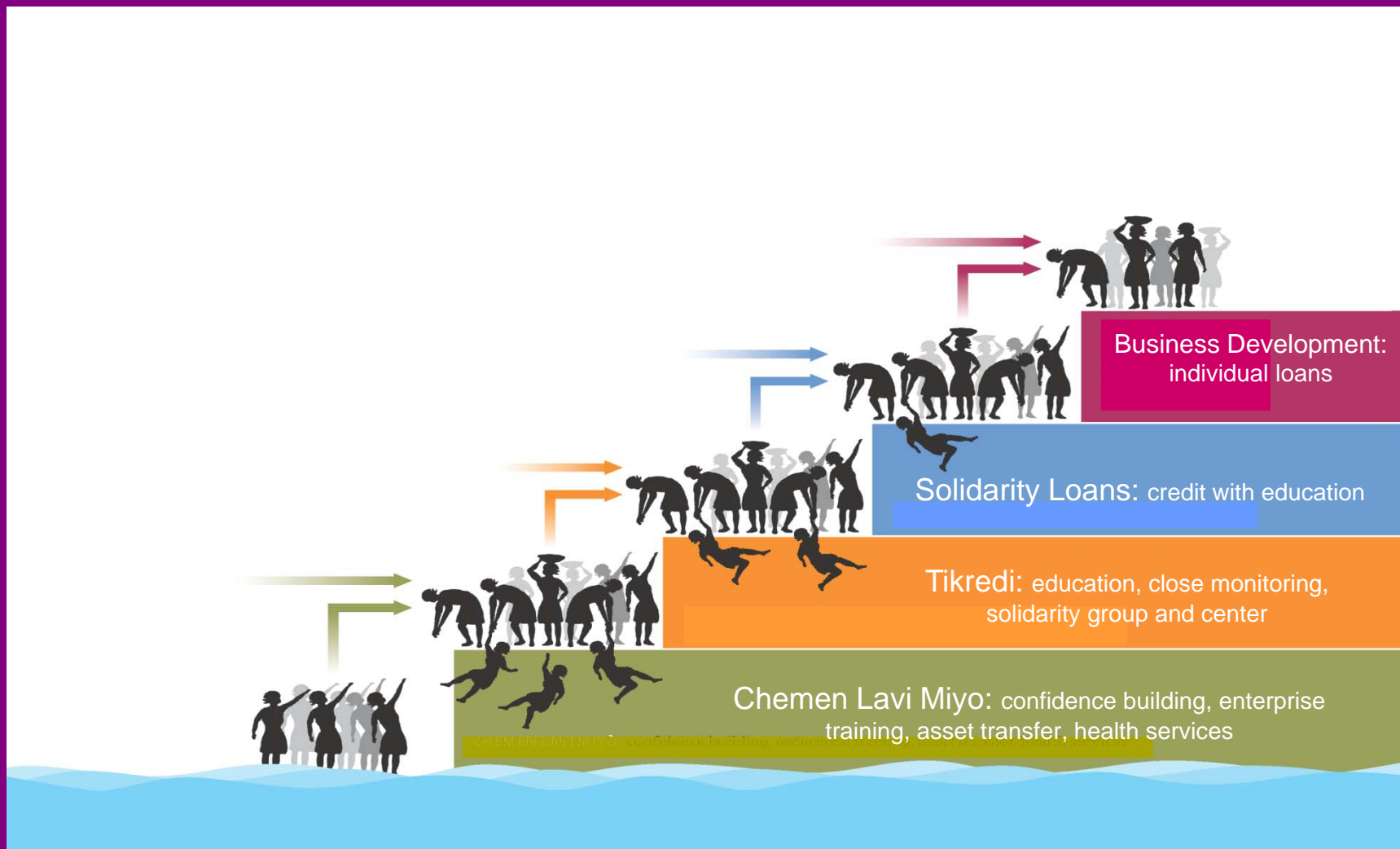
The Biggest Fears

- Client difficulties could lead to political pressure for lower interest rates and criticisms of commercialization
- Capital investment in microfinance may decrease if commercial banks or other debt and equity investors decide to withdraw as a result

The Example of Haiti

- 80% of the 8.7 million population lives on less than \$2/day
- Over 50% live on less than \$1/day
- Half of children under five are malnourished
- \$1.8 billion/year in remittances = 35% of GDP
- Gas prices now over \$6/gallon, intensifying the problem
- Serious damages from various hurricanes, damaging crops, homes
- Increased migration
- Record increases in last year – Global and local antecedents
- April 2008 food riots left 6 Haitians and 1 UN peacekeeper dead; Government toppled; Still no prime minister in place
- US Government and UN World Food Program pledged \$117 million in food and agricultural aid. By July, less than 2% had been distributed.

Fonkoze's Borrowers Climbing the Ladder out of Poverty



The Reality of "Grangou Klowoks"

Food	Amt	Dec 03	Aug 07	Feb 08	Aug 08	1 yr % Increase
Rice	6 pd pot	105	84	125	210	150%
Beans	6 pd pot	100	90	175	200	122%
Oil	Gallon	210	197	250	375	90%
Flour	6 pd pot	40	55	84	105	91%
Exch Rate	Gds/\$	42.0	35.1	37.0	40.25	

Typical Success Story



- ❖ Three loans, no delinquency
- ❖ Approved for a home improvement loan



What's her business? Dirt Cookies!

Business has never been better!



The Ingredients

A Sickening Choice



What Measures Has Fonkoze Taken?

- Increase flexibility in product implementation
- Proactively help clients plan for the future – CLM
- Intensify accompaniment: business training, client support, other services
- Seek operational improvements to decrease costs - ABC
- Build partnerships with other organizations
- Do what's necessary to increase client retention

Another Example:

Jamii Bora Trust, Kenya

- Political violence in January 2008
- Dramatic increases in food and fuel prices as a result
- Borrowers forced to devote larger % of resources to consumption
- Most borrowers have not seen business income enough to cover increases
- Especially hard hit are vendors selling food items
- In rural areas, crops destroyed during violence

Impacts on Jamii Bora

- Increase in “tiding over” loans and consumption loans, rather than business loans
- Proud of their flexibility in loan products
- Will increase attempts to work cooperatively with borrowers with business problems
- Will restructure or delay loan payments as necessary
- Will suggest diversification in client businesses

CGAP 's Informal Survey of 29 MFIs

Measures Taken By MFIs

- Work with borrowers to find solutions on case-by-case basis (14)
- Increase loan sizes to compensate (13)
- Apply more flexible loan policy (12)
- Rescheduling loans (9)
- Reducing interest rates (6)
- Work with relief organizations (6)
- Give out food (3)
- Reduce compulsory savings (3)

CGAP 's Informal Survey: The Role MFIs Should Play

- Serve as an instrument to increase agricultural production (22)
- Adapt policies to alleviate consequences as long as no effect on sustainability (20)
- Expand access to finance and not take up relief activities (17)
- Emergency procedures to assist people suffering (13)
- Serve as a channel to distribute aid (11)

CGAP 's Informal Survey:

Some of the Concerns of MFIs

- Serious moral dilemma of how to deal with defaulters
- What role in food distribution?
- Increased need for loan capital when loan sizes increase
- Huge pressure on employee salaries

The Role of Social Investors

Article by Geoffrey McDonald, Christian Science Monitor, 25 August 2008

- Interfaith Center on Corporate Responsibility have proposed investing guidelines to encourage sustainable agriculture
- Socially responsible mutual funds are in fact-finding mode
- International Food Policy Research Institute says the mobilization of capital for agricultural growth, especially in the small-farm economy, cannot come exclusively from private sector
- UN Food and Agriculture Organization (FAO), the African Development Bank and others have called for increased investment in microfinance to serve as a safety net during the crisis
- Accredited investors have additional options – e.g., bankrolling farmer cooperatives through Root Capital in Cambridge, MA
- Ethically motivated investors should stay away from grain and oilseed-based biofuels because of their contribution to rising food prices

Thank You For
Your Attention!

