

## Executive Summary

Specialists highlight MFIs are taking more foreign capital. This increasing dependence on foreign capital, has as a consequence that MFIs are believed to be more vulnerable to international shocks. The current financial crisis is thus thought of having an impact on the microfinance sector, because of the strong relationship between the international shocks and MFIs' main international funding sources. However, the negative effects of the shortage of these sources on the liquidity and funding of an MFI may depend on several factors and may be different in different contexts. In order to address this issue, this paper will analyze if the current financial crisis is hurting the funding and liquidity of the Peruvian MFIs, since foreign capitals are being hurt by this international shock just in times where they are becoming more important for the funding structure of MFIs. It will analyze the reasons why this crisis can damage the liquidity and funding of the MFIs or not and it will focus therefore on foreign capital. The paper will only focus on the funding and liquidity side as this is one of the main channels through which the crisis is damaging the MFIs. The analysis will be based on the Peruvian Non Bank Microfinance Institutions (NBMFIs), which is made up by the Municipal Savings and Loan Institutions (MSLI or CMAC), Rural Savings and Loan Institutions (RSLI or CRAC) and Entities for the Development of the Small and Microenterprise (EDPYME). In this sense, the hypothesis that will be tested is: "The decrease of the available foreign capital, produced by the current financial crisis, is not hurting the funding and liquidity side of the Peruvian NBMFIs, even though foreign capital has become more important in the funding structure of the NBMFIs lately".

This research is based on the analysis of statistical figures, on the analysis of the literature on the relationship between macroeconomic, financial and microfinance variables, as well as interviews with microfinance and financial specialists. The main conclusions are as follows:

First, the funding and liquidity of the Peruvian NBMFIs was not affected by the decrease of the foreign funding available for these institutions. NBMFIs do not base their capital structure on foreign fundings. The dependence on foreign capital has been increasing but until now MSLI, RSLI and even Edpymes have diversified their funding structure very well. Among the three types, Edpymes

are the more dependent since they are not allowed to collect deposits but they continue presenting a good funding structure taking more domestic sources and increasing their equity each time.

Second, all the main funding variables increased during the months of crisis (beginning on September 2008). However deposits and paid in capital present a slowdown in their growth, while debts increasing faster boosted by the domestic debts, especially the short one during the worst month of the crisis (September 2008 – march 2009 approximately).

Third, foreign funding decreased, but the liquidity and funding figures stay at good levels and even improve. This fact is rooted in the good management of the macroeconomic system (keep the exchange rate stable, maintain the good level of liquidity of the financial system, and indirectly stable inflation and interest rates), the financial soundness and characteristics of the NBMFIs (deposit takers, increase of the paid in capital, be funded with long term debts, be regulated) and the good management of the financial system (more use of the capital market as funding source, the demanding of the good performance of the MFIs by banking regulator, and the existence of a wholesale bank). The liquidity and funding indicators presented small movements during the crisis, but they are at the same level as before the crisis. Even Edpymes keep the same levels of liquidity.

In conclusion, for the Peruvian case, we can conclude that the crisis is currently not impacting the liquidity and funding of the Peruvian NBMFIs in a negative way, even though foreign funding was less during the worst months of crisis. Overall, MFIs kept good levels of liquidity. Nevertheless, the crisis is not over yet, so it could be that the microfinance sector will be hurt in the future. This should be followed up. Of course, this research has some limitations. First, it only concentrates on the NBMFIs. It would be interesting to investigate what happens to the other MFIs in order to draw more general conclusions. Furthermore, no econometric analysis is performed. To draw more firm conclusions, an econometric analysis could be performed. Ideally, a large panel data set should be available. Future research could try to address this issue and the relationship between the level of dependence on foreign investors and the vulnerability of the microfinance sector to international shocks could then be investigated in a more profound way.