

Full Length Research Paper

Microfinance and the Global financial crisis (GFC): Towards a Sustainable Solution for the poor in Africa

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The purpose of this paper is to establish the connection between microfinance and the Global Financial Crisis (GFC). Its ultimate aim is to seek for a sustainable solution for the poor people in Africa. Its qualitative research methodology and an explorative design allowed the researcher flexibility to interact with secondary sources of data. The global financial markets noted volatility from the mid-2007 to date. The crisis led to serious short and long-term impacts that include rising unemployment rates, loss of income, closure of enterprises and increased poverty. African economies need to be placed on a more stable and equitable growth trajectory by correcting the inherent imbalances in the financial system so as to generate socially and economically efficient outcomes. Microfinance gained popularity in the 1970s when Yunus identified it as a developmental and poverty alleviation intervention. Findings show that microfinance could be a sustainable alternative for the poor since it managed to pull through the GFC. This paper argues for a sustainable and inclusive microfinance that will contribute towards keeping Africa on a growth path.

Key words: Microfinance, microcredit, global financial crisis, economic growth, microfinance approach, sustainability, financial inclusion.

INTRODUCTION

The Global Financial Crisis (GFC) and its aftermath meant the world faces the prospect of a prolonged increase in unemployment, loss of income, foreclosures and closure of enterprises. Because of globalization, the African economies and their financial sectors are linked to the international financial market that was shaken by the GFC (Ndibe et al. 2013). There is therefore need to put African economies on a more stable and equitable growth trajectory. Both socially and economically efficient outcomes (Allen and Maghimbi, 2009) need to be generated by the financial system. The GFC had negative effects on microfinance through reduction in funding (CGAP, 2011) and high interest rates to customers (Di Bella, 2011). Despite the ups and downs caused by the GFC, microfinance remains important especially in the microenterprises sector (MicroRate, 2012).

The poor and vulnerable groups (which include women

and children) of the world face marginalisation that has been perpetuated by the rigid traditional financial system. Poor people do not have protection (Di Bella, 2011) from the effects of the financial crisis whose volatility has far reaching implications for access to capital, income distribution, employment, poverty, and their microenterprises¹.

The paper is organized as follows: The first section gave an introduction and a brief background on previous crises and microfinance. An outline of the methodological approach used in the paper was also presented. Section two provides an overview of the GFC. An analysis of the causes, growth and impact of the crisis in Africa with particular reference to microfinance will be provided. The

¹ Microenterprises are business entities owned by poor or low income groups and they are small scale in nature, making it difficult for them to access capital from the traditional financial system.

third section will then discuss microfinance in the African context. Finally the paper provides recommendations and conclusions that are aimed at contributing towards placing Africa on the development trajectory. Areas needing further research shall also be highlighted so as to provoke further work in the area.

Previous Crises and Microfinance

It is important at this juncture to explore how the previous crises have impacted on microcredit or microfinance. Microcredit gained currency in the 1970s when Yunus identified it as a developmental and poverty alleviation intervention (Armendariz de Aghion, and Morduch 2005).. Through history, there has been a paradigm shift from microcredit to microfinance; the latter being wider or broad-based than the former. Lack of access to finance by the poor has shown that they become exposed to external shocks such as crises.

The history of microfinance shows that it has some degree of resilience to crises, hence the need to develop it further for the betterment of the people on the lower segment of the economic spectrum. This characteristic feature could be harnessed to benefit the poor who suffer exclusion from the prevailing systems. As far back as 1848, Raiffeisen began to be involved in rural finance in Germany (Helms, 2006; Allen and Maghimbi, 2009). His involvement was greatly motivated by the agrarian crisis that had hit the rural farmers. There was also an increase in indebtedness among smallholder agriculturalists (Allen and Maghimbi, 2009). This distress caused many farmers to suffer from takeovers and high input costs due to lack of capital. Allen and Maghimbi further note that Raiffeisen's efforts helped farmers to get capital and they ended up as members of finance co-operatives. The upside of the crisis was the development of financial co-operatives hence fostering collaboration among farmers in their financial matters. These initiatives of financial co-operatives emerged in Germany, other countries in Europe, other countries in North America and also developing countries.

In 1850, Schulze-Delitzch pioneered urban finance cooperatives because access to credit was a problem among workers and the self-employed (Allen and Maghimbi, 2009). According to Hesse and Cihah (2007) cited in Allen and Maghimbi (2009), the International Monetary Fund (IMF)'s analysis indicates that cooperative banks in developing countries tend to be more stable than commercial banks especially during a crisis, as their investment patterns tend to be less speculative and returns are therefore less volatile. This is an interesting finding of the potential that microfinance possesses in the face of crises situations. Models followed by microfinance adopt the group solidarity

strategy and peer group pressure monitoring to enforce repayments. The sector takes advantage of social capital (Otoo, 2012 and Vermaak, 2009) that is abundant among the poor and is also resilient to external shocks.

The 1970s witnessed microfinance gaining currency when Muhammad Yunus, a Bangladeshi professor of economics identified it as a developmental and poverty alleviation intervention. He then established the Grameen Bank which has since expanded its operations in helping the poor, especially in the rural areas. The bank, together with Yunus was jointly awarded a Nobel Peace Prize in 2006 because of the sterling efforts to make world poverty a history. The microfinance concept has managed to spread to a number of countries in Asia, Latin America, Europe and Africa.

Today, the growth of microfinance has seen commercial banks and other commercial actors entering the sector (Helms, 2009). Increasing emphasis is on reconstructing the financial system so as to make it inclusive. The poor and low income earners who are usually excluded need to be part and parcel of the financial system. The GFC shook the global financial and real economies leading to a serious slowdown (Ndibe et al. 2013, Otoo, 2012 and Di Bella, 2011). Microfinance was not spared by the 'storm'. The next section presents the methodology adopted by this paper.

METHODOLOGY

The paper was approached from an explorative angle since very little has been researched on the relationship between microfinance and the GFC. It was based on newspaper articles, statistics from reports released by organizations such as International Labour Organisation (ILO), International Monetary Fund, World Bank, Overseas Development Institute (ODI), and African Development Bank (AfDB), United Nations (UN), African Union Commission etc. Working papers published by some analysts were also used to get information about the relationship between these important variables.

AN OVERVIEW OF THE GFC

"The GFC has brought with it serious short-term and long-term consequences, including escalating unemployment, loss of income and foreclosures for real economies across the world" (Allen and Maghimbi, 2009:4). It caused a general slowdown in most developing countries with stock markets going down by more than 40% (Ndibe et al. 2013 Di Bella, 2011 and te Velde, 2008). Further, Wilem te Velde described it as an international macroeconomic challenge created by the downturn by developing economies whose financial sector entered into a distress with its 'epicenter' in the US economy.

IMF (2009) puts it forward as follows; "... the crisis that began with the bursting of the housing bubble in the United States in August 2007, resulted in the world facing a deep downturn". It also described the GFC as the worst downturn since the World War II and the worst financial crisis since the Great Depression (Crotty, 2009) of the 1930s. It pushed the global economy to the brink of a

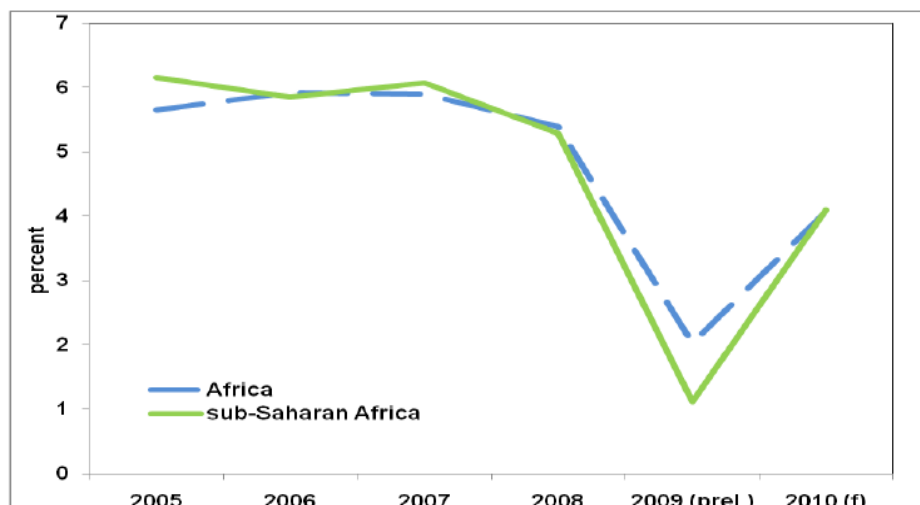


Figure 1. Annual Real GDP Growth, 2005 to 2010 (forecast).
Source: African Development Bank (2010:10).

depression. This paper notes that the effect of the GFC on African economies could and cannot be avoided. The IMF's World Economic Outlook Report of April 2008 states that a decline in world growth of 1% point would lead to a 0.5% point drop in Africa's Gross Domestic Product (GDP) (te Velde, 2008). This means that the effects of the GFC on African economies are real and could have long-term or long-run effects.

Africa was among the fastest growing regions during 2000 to mid-2008 (AfDB, 2010). The GFC then led to a slowdown in growth and this was transmitted through declining exports, fall in remittances, reduced Foreign Direct Investment (FDI) and declines in tourism. Figure 1 below gives a picture of Africa's growth trend. Africa's growth rate fell from about 6% during the 2005-2008 periods to about 2% in 2009 (AfDB, 2010). The impact did not spare the microfinance sector. As indicated in the figure, a projection of about 4% increase in growth was estimated but it was below the pre-crisis rate of 6%.

The main thesis of this paper is therefore that, in the face of the GFC, can microfinance play a role in sustaining the poor from shocks even if they have a global outlook. Then the following questions emerge; could microfinance be strengthened to whether out the crises such as the GFC? Can it be used as a safety net for the poor in developing countries?

Causes of the GFC

Claessens (2010) contends that the GFC has several interconnected causes that can be categorized into four familiar and four less familiar ones. The interconnectedness of the causes makes it complex to separate some of the issues hence these causes can, in the end, be collapsed to a manageable set.

The Housing Bubble

This is believed to be the most conspicuous cause of the 2007 financial crisis. It began as a bursting of the US housing market bubble (Nanto, 2009). This disturbance led to a global financial and economic crisis. The housing bubble resulted from the underestimation of the risk translated by the relaxation of lending

practices in the housing market (Allen and Maghimbi, 2009). Relaxation of lending practices was based on the assumption that housing prices would maintain their stability. Allen and Maghimbi further state that housing prices deteriorated leading to risk exposition and resultant foreclosures. Housing dealers that had bought houses could not sell the properties at a profit hence leading to either serious losses or foreclosures. The financial crisis started in the US and quickly spread like wild fires to other developed economies, emerging markets and developing countries. The world over, in fear of the crisis, many investors withdrew their capital from their investments hence leading to a plunge in the value of stocks and domestic currencies (Nanto, 2009). According to Llanto and Badiola (2009), this 'storm' caught policymakers off balance as liquidity in the financial sectors started to dry up leading to greater volatility. The contagion effect of the crisis can be explained by the interconnected and wired nature of the global economy. This partly explains the depth and breath of transmission of its impacts. Llanto and Badiola also note that the depth and breath of the GFC was different from the Asian crisis of 1997 to 1998.

The stability of the financial assets based on mortgages was undermined. In the same vein, insurance providers were unable to honour their obligations. This transmission of effects led to increased instability in the financial market and also crossed to the real sector of economies (Nanto, 2009; Llanto and Badiola, 2009; Allen and Maghimbi, 2009). The effects also originated from the credit boom.

Credit Boom

The financing of the housing market in the US boomed after 2000 (Claessens, 2010). This boom drove the demand for houses hence pushing their prices up leading to instability in the financial market. Lending standards also declined because of the credit boom. The boom made people to be awash with credit hence speculative activities in the housing sector ballooned leading to volatility.

Marginal Loans and Systematic Risk

The credit boom led to the creation of marginal assets whose

reliability was on one favourable economic condition. These faced a downturn as the subprime market declined. Systematic risk refers to a risk that strikes the financial market because some of the related institutions are not properly regulated. These may not be necessarily in the financial market but in the real sector of the economy. Nanto (2009) argues that the use of stress testing by financial institutions should be rigorous to minimize this kind of risk.

Regulation and Supervision

There were slack regulatory approaches during the crisis period. Claessens (2010) argues that the development of a 'shadow banking system' exposed the financial sector to systematic risks. A relaxed system of lending that dominated the pre-crisis period sparked the GFC because of careless lending especially in the housing market.

Opaque and Complex Financial Instruments

Gorton (2008) in Claessens puts it as follows:

This expansion of the originate-and-distribute model exacerbated agency problems; risk assignments became murkier and incentives for due diligence worsened, leading to insufficient monitoring of loan originators and an emphasis on boosting volumes to generate fees. It became difficult to separate healthy from unhealthy institutions because of the opaqueness of balance sheets.

Transparency in financial transactions is an important characteristic of the financial system that builds confidence in the dealers. Confidence dealing in the financial sector improves stability hence reducing violent up and downswings. Insufficient monitoring worsened a number of financial risks and due diligence was lost leading to a crisis.

Increased Interconnectedness of Financial Markets

Financial integration has increased globally leading to greater international risk sharing, competition and efficiency but also a higher risk of transmitting financial shocks across borders (Claessens, 2010). This integration facilitated the crisis to be global by making it 'footloose', which is, it could easily cross borders. Allen and Maghimb (2009), argue that Africa's low level integration into the global financial markets isolated it from the immediate and direct impacts of the GFC. Despite this scenario, spillover effects could not be averted. The next section conceptualizes microfinance.

CONCEPTUALISING MICROFINANCE

Poor households do not have access to resources offered by formal finance institutions. Instead, the poor people are always regarded as 'unbankable'. McGuire and Conroy (2000) note that, in the decades following the World War II, it was believed that poor households were not bankable, that is, it was not possible to provide financial services to poor households profitably. This notion made the formal financial sector not to respond to the poor people's demand for financial resources. In order to fill the supply gap, the microfinance concept emerged as an alternative for the so-called 'unbankable', risky, credit unworthy, unreliable and costly borrowers (the poor people). What is the meaning of microfinance?

The Asian Development Bank defines microfinance as follows:

"Microfinance is the provision of a broad range of financial services

such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises. Microfinance services are provided by three types of sources: formal institutions, such as rural banks and cooperatives; semiformal institutions, such as nongovernment organizations; and informal sources such as money lenders and shopkeepers. Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services" (Asian Development Bank, 2000:2).

Carr and Yi Tong (2002:2) note the following about microfinance:

"Conventionally, microfinance refers to a financial mechanism through which formal or informal financial institutions make very small loans ("microcredit") to the entrepreneurial working poor ("microenterprises"). More recently, microfinance has evolved to include microloans for housing, education, consumption, as well as savings and money transfer programmes for low-income individuals."

The definition by Carr and Yi Tong clarifies the difference between "microfinance" and "microcredit", the latter is "minimalist" whilst the former is "integrated". These terms are often used interchangeably but "microfinance" represents a paradigm shift from "microcredit".

Microfinance is a wider concept than microcredit; with the latter being the granting of small loans only (minimalist) and the former involving issuing of small loans and a package of other follow-up and support services (integrated). In simple terms, microcredit is a subset of microfinance therefore the two terms should not be used interchangeably. Ledgerwood (1999) writes about the 'minimalist' and the 'integrated' ways of issuing micro-financial services to the poor and low-income groups. The minimalist way involves giving small loans only and the integrated approach proposes giving loans plus a package of follow-up services so as to achieve sustainability.

Providers of micro-financial services debate on whether to use the minimalist approach or integrated approach in financial intermediation. The minimalist approach involves providing financial intermediation only. Minimalists offer limited social intermediation services such as group formation, leadership training and cooperative learning (Sa-Dhan, 2003 and Ledgerwood, 1999). Ledgerwood further observes that the minimalist approach's main focus is a single "missing piece" in enterprise development. Proponents of the minimalist approach argue that it offers cost advantages for microfinance institutions (MFIs) and also allows them to remain focused. Offering extended services is expensive so it requires financial support from either government or non-governmental organizations (NGOs).

On the other hand, the integrated approach involves financial intermediation, social intermediation, enterprise developmental services and social services. The approach takes a holistic view of the client. According to Ledgerwood (1999), it is based on the premise that enterprise growth requires a whole range of services as aforementioned. This approach's holistic stance gives the clients a complete package that has the capability of making them realize their full potential. However, Ledgerwood warns that MFIs that choose to adopt the integrated approach should be aware of the following potential issues:

1. Providing financial and non-financial services are two distinct activities, which may have conflicting objectives,
2. It is often difficult for clients to differentiate "social services", which are usually free, from "financial services" which must be paid for,
3. MFIs offering other services may have difficulties identifying and controlling the cost per service, and
4. Non-financial services are rarely financially sustainable.

To overcome the above, MFIs can enter into strategic partnership with other organizations such as the government, donors and Non-Governmental Organizations (NGOs). These organizations have a comparative advantage in providing social services to the poor. Such synergistic relationships are likely to improve the sustainability of microfinance programmes.

Another view is that microfinance is an innovative² segment of the banking sector. It is a way of providing financial products to the poor. Magner (2007:8) asserts that “microfinance bridges the gap that commercial banking has not been able to fulfill and where philanthropy has not been able to go beyond pilot approaches to reach meaningful scale”. Its main aim is to capacitate the poor by making them create their own investments and employment. The poor need to be enabled to build their own microenterprises and move themselves out of poverty. Thus microfinance becomes an income producing tool. The poor are empowered to make their own business decisions hence it acts as an empowerment tool-the voices of the poor can be heard. So an inclusive financial framework would benefit the poor, especially the rural poor.

MICROFINANCE AND THE GLOBAL FINANCIAL CRISIS

Microfinance is one of the promising sustainable solutions to put the poor on a developmental trajectory. Poor people lack access to finance such that the occurrence of a crisis will impact on them badly making their coping strategies to seriously shrink. The limited interconnectedness of African economies was a blessing in disguise because they were then isolated from the immediate effects of the GFC. However, Llanto (2009) laments that the GFC had influence on rural and microfinance sectors, first through a fall in remittances, tourism and demand for commodities from developing countries. Secondly microfinance institutions (MFIs) are more linked to the global financial markets hence making it difficult to block the effects. MFIs in Africa depend on donor support and most of the donors come from the industrialized economies that were directly affected by the GFC. The GFC negatively affected microfinance in one way or the other.

Remittances

Remittances in this paper refer to money that sent by people working outside their country. In most cases, people from developing countries migrate to developed economies to seek for employment. When they get their wages, they then send part of it home to their families. This is a common feature with Africans that migrate abroad and then remit cash to their home countries. This is a very important source of income for the families that have a migrant husband or relative. According to UN and AUC (2009), remittances have played an important role in development finance in Africa. They further state that remittance inflows to sub-Saharan Africa increased from \$4.6 billion in 2000 to \$20 billion in 2008. These statistical figures demonstrate the importance of remittances to the African economies. A greater portion of remittances finance household expenditure, thus having a direct effect on poverty.

Remittances inflows in United States dollars to developing countries help to increase the access to finance by poor and low income groups. According to Littlefield and Kneiding (2009), the World Bank predicted that growth of remittance inflows from developed countries will reach their lowest point in 2009 but they

will bounce back to reach solid growth rates in 2010. What are the implications of this prediction? It means that poor families in developing countries were going to receive fewer financial resources hence impacting badly on their livelihoods. The GFC, in this regard had both short-run and long-run effects. A credit union member in Ghana (quoted in Littlefield and Kneiding, 2009:2) puts it across as follows:

“The financial crisis has reduced the inflow of remittances from citizens or relations abroad and so many members now have to fall on their savings or take loans”.

This means that the poor had to reduce their savings through dis-saving and their assets through disposal so as to cope with the shock.

When the GFC struck, migrant flows to developing countries slowed down as a result of falling demand for labour in sectors affected by the crisis. This decline contributed to a fall in remittances to developing countries (USAID, 2009). The fall in remittances had a direct effect on disposable income hence reducing the demand of micro-entrepreneurs' commodities.

Impact on clients

Most MFIs reported that the purchasing power of clients went down because of the financial crisis (Littlefield and Kneiding, 2009). Savings faced withdrawals and many clients had repayment difficulties. Such a scenario created both liquidity and credit risks for MFIs.

Impact on MFIs

Most MFIs depend on international donor funding. In Africa, local financial sources are very scarce leading to overreliance on international funders. This puts MFIs in a position where they are exposed to external international shocks. The GFC had immediate and direct effects on MFIs because their funders were located in the ‘epicenter’ of the crisis. This connectedness with funders made MFIs to receive little funding for their operations as donor funds started drying up in response to the crisis. Littlefield and Kneiding (2009) note that, following the announcement of the Lehman Brothers' collapse, many microfinance banks in Eastern Europe and Central Asia witnessed a steady withdrawal of savings. This was also experienced in African countries such as Nigeria and Kenya, leading to bank runs. Littlefield and Kneiding further note that in Rwanda MFIs slowed down credit growth as clients were defaulting on loans. This was mainly because they lost hope of receiving further loans.

During the crisis, government budgets were strained and drained by financial bailouts in response to the GFC. Overall aid budgets were also cut and microfinance funding suffered. Sources of funds for MFIs started to compete with other aid priorities that included agriculture and food relief. Littlefield and Kneiding (2009) state that foreign aid dropped by 8.4% in 2007 hence exacerbating the vulnerable financial positions of MFIs in developing countries. Due to the connectedness of the global financial system, the effects of crises on microfinance are inevitable hence the need for sustainable solution for the poor in Africa.

RESULTS: TOWARDS A SUSTAINABLE SOLUTION

The analysis above shows that microfinance in Africa is prone to financial crises because of its reliance on international funders. Microfinance has become one of the strategies that can contribute towards putting Africa on the growth trajectory. Africa is the world's second

² The emergence of microfinance as a development strategy has led to new innovations. New areas of microfinance have been developed and these include, “microfinance of housing” (Ferguson and Haider in Carr and Yi Tong 2002:299) and “Green microfinance”-linking microfinance to renewable resources.

largest and second populace continent after Asia. Although being a continent that is endowed with plenty natural resources, Africa remains the world's poorest and most underdeveloped. Getu (2001) reinforces this by noting that despite its natural and human resources, Africa is the poorest continent in the world. Thirty of the world's forty countries are in Africa and more than 50 percent of the continent's 600 million people suffer from absolute poverty. Widespread poverty and underdevelopment are attributed largely to the consequences of the slave trade, corrupt governments, failed central planning, colonialism, and the international trade regime, human right violations, conflict, war and recently the GFC.

Results show that an approach that has a potential of cushioning the microfinance sector in developing countries involves deposit-taking.

Deposit-taking Approach

Deposit-taking is a strategy where MFIs take deposits from their clients as it is for the rest of the banking system (Littlefield and Kneiding, 2009). They further assert that the crisis has clearly illustrated the value of adopting a deposit-taking approach to building sound and permanent domestic financial systems that can serve the poor with both credit and savings facilities. This approach should be supported by measures that promote responsible lending. This paper argues, based on findings, that deposit-taking MFIs could be self-sufficient and thus enhancing sustainability.

According to proceedings from CGAP Virtual Conference (2008), deposit-taking MFIs are well insulated from refinancing risks that are caused by crises. Our findings show that those MFIs that have a broad-based deposit-taking mechanism are less exposed to 'refinancing risks'³. This finding points to the fact that deposit-taking should be allowed if MFIs are to be made sustainable. Ndibe et al (2013) argue for diversified funding sources and strategies. Deposit-taking emerges as one of the strategies. USAID (2009) also comments that deposit taking institutions were less affected by the crisis. This shows that a sustainable solution for cushioning microfinance is developing towards deposit-taking. MFIs could be sustained by allowing them to take deposits thus improving their financial viability. Results show that deposit-taking MFIs tend to be sustainable, for example, the KREP of Kenya. According to Temu (2009) the Standard bank of Tanzania has partnered with CRDB Bank and selected SACCOs to develop strategies to serve the non-banked rural poor Africans through the deposit-taking process for credit creation. Deposit-taking by MFIs could be strengthened to whether out the crises

³ Refinancing risk involves the failure by MFIs to get adequate funding due to increase in its cost and a reduction in availability due to global liquidity contraction.

such as the GFC. Thus, it becomes a safety net for the poor in developing countries.

Littlefield and Kneiding warn that bailouts supplied by governments are good but they are likely create a crowding-out effect on local resources and also disincentives for deposit mobilisation. So MFIs should be encouraged to progress towards acquiring deposit-taking licenses. However, it should be noted that there are different regulations in different African countries pertaining to the licensing. Most African MFIs are supported by NGOs which are prohibited from accepting client deposits (Microfinance Information Exchange, 2007). This scenario strengthens the need for an approach that encourages reliance on local inexpensive debt in the form of client savings. Client savings have an impact of boosting sources of finance for the activities of MFIs. Deposit-taking or savings-led institutions tend to be robust because they have little dependence on external funds (CGAP, 2008). Such MFIs can withstand the effects of GFCs and thus providing a livelihood strategy for the 'unbankable' in developing countries.

CONCLUSIONS AND RECOMMENDATIONS

Microfinance is one of the interventions that can help the poor people in developing countries to realize their potentials for the uplifting of their livelihoods. The majority of people in Africa is poor hence the need for an intervention that takes cognizance of their livelihoods. The main objective of microfinance is to improve the access to finance by the 'unbanked' people. The GFC has had daunting effects on the microfinance sector, especially where the MFIs rely on funds from international funders or where they rely upon banks that are more integrated into the international financial system (USAID, 2009). Emanating from the US and other developed countries, the GFC was mainly started by the bursting of the housing bubble hence creating ripple effect on the globe, hence the 'global financial crisis' (GFC). Other causes included the credit boom, systematic risk, slackening regulation and supervision, opaque and complex financial instruments and increased connectedness of financial markets.

The impact of the crisis on microfinance was minimal because of their isolation from the financial system. However, their source of funds (the international funders) was directly affected by the crisis leading to a slowdown in the supply of donor funds. With this backdrop, this paper therefore suggests the following recommendations:

1. The microfinance sector should reduce its connectedness with the international financial system
2. MFIs should rely upon deposits from clients, that is, they should start adopting a deposit-taking approach. This will have an effect of promoting their resilience.
3. Deposits should be mobilized from a broad base of smaller savers so as to reduce the effects of a global crisis.

Areas needing further research:

1. Microfinance and MDGs
2. Microfinance in volatile economies.

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