

Press Release

MICRORATE'S ROLE REVERSAL REVISITED FINDS THAT PUBLIC LENDERS ARE CROWDING OUT PRIVATE INVESTMENT IN MICROFINANCE

Washington D.C., January 24, 2012 – MicroRate's study [*Role Reversal Revisited: Are public development institutions still crowding out private funders?*](#) concludes that the answer is a resounding yes! This finding contradicts statements by development finance institutions (DFIs), which claim that public money will only go where private funders fear to tread.

"It is surprising to see public development institutions competing vigorously with private funders. Common sense suggests that once private funding becomes available, development institutions should shift their attention to areas where private funding will not go. By now, nearly 100 microfinance funds (also called microfinance investment vehicles or MIVs) have lent an estimated \$7 billion to microfinance institutions (MFIs) in poor countries. Many of these funds complain that they find it hard to compete with DFIs which enjoy an implicit government subsidy," reflected Damian von Stauffenberg, founder and chairman of [MicroRate](#).

The original [Role Reversal](#) study, published in 2007, found that DFIs were crowding out private microfinance funds, by offering below-market interest rates and other incentives. At the time, many DFIs pledged to review their policies and to stop competing with private funders.

Five years later, *Role Reversal Revisited* concludes that the competition is even more pronounced.

- Top-performing MFIs with easy access to private funding are the preferred target for DFI lending, with ten large MFIs absorbing nearly half of all DFI lending to MFIs between 2008 and 2010.
- During 2006-2010, official lenders lent at interest rates which were on average approximately 250 basis points (2.5%) below market rates.
- Far from ceding ground to private lenders, DFIs accelerated their lending for microfinance. In 2007, they overtook private funding as the leading source of foreign microfinance investment.

Role Reversal Revisited argues that microfinance is growing so rapidly that its future funding needs cannot possibly be met by the official development institutions. It is therefore shortsighted of DFIs to crowd out private lenders without whom microfinance will not be able to reach its full potential.

Role Reversal Revisited was sponsored by the [Calmeadow Foundation](#) and the [Council of Microfinance Equity Funds](#) (CMEF).

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About MicroRate

[MicroRate](#) is the leading microfinance rating agency dedicated to evaluating performance and risk in microfinance institutions (MFIs), as well as evaluating microfinance funds, also known as microfinance investment vehicles (MIVs). As the oldest and most well-respected organization of its kind, MicroRate's primary goal is to promote growth in the microfinance industry by facilitating the efficient flow of money from capital markets to MFIs through independent evaluation and increased transparency. Since its inception in 1997, MicroRate has conducted over 600 MFI ratings and is the largest microfinance fund evaluator in the industry. MicroRate's new [Luminis](#) service is the first web-based, analytical platform on microfinance investment funds.