



## **Fragmentation In Microfinance May Stunt Its Growth**

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Of DOW JONES NEWSWIRES

840 words

18 January 2007

16:44

[Dow Jones Capital Markets Report](#)

English

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NEW YORK(Dow Jones)--Microfinance may be capturing the attention of big investors, but its fragmented nature could derail efforts to drum up more money for this important source of financing for the world's poor.

To grow and diversify, the industry - comprised of tiny loans made to the poor to run small businesses - needs to tap into the recent wellspring of interest from large investors who want to add a social angle to their bottomline.

Participants in a microfinance conference in the New York this week, however, complained that the different bureaucratic, legal and tax obstacles in many developing nations make investing in these microfinance institutions daunting for some.

Throw in the absence of a uniform rating criteria that would give investors a better gauge of an individual microfinance bank's credit standing, and investors, though enthusiastic about the idea of tapping this small, but lucrative, market are still shy about funneling large amounts of money into it.

"It is still a market where you have to develop with the market," said Klaus Tischhauser, managing director of ResponsAbility, a Zurich-based company that describes itself as a social investment service firm. "It is still developing into an industry."

Participants at the conference hosted by Women's World Banking and Goldman Sachs, however, said the creation of international standards for microfinance would go a long way in making it easier to invest in this market.

Currently, investors often have to deal with each loan on a case-by-case basis, causing delays and uncertainty. The fact that MFIs operate in many countries with their own distinct rules, makes the process even more cumbersome for investors looking to spread their investment around.

Tischhauser said that larger investors have become accustomed to operating in the global marketplace where "a bond issue is a bond issue. That's not the case with MFIs because every single dollar invested" is doled out to a unique type of institution.

A lowest common denominator offering some basic standardization across all countries would help in putting more loans together for MFIs, said Mary Ellen Iskenderian, president of Women's World Banking, a non-profit network comprising over 50 microfinance institutions and banks in Asia, Latin America, Africa, Eastern Europe and the Middle East. "Speaking with one voice is more effective."

If the entire industry would collaborate to set up these standards, Iskenderian said, they could all benefit. Loan documentation, for instance, could be standardized for starters.

Unless these steps are taken, investors look for more guarantees, said S.N.Kairy, director of finance at Bangladesh Rural Advancement Committee, which offers small loans to 4.5 million borrowers in

Bangladesh. "Outside investors don't know the local environment so they disburse funds to the local banks rather than to the MFIs," he said.

#### Size Matters

The size of the market, estimated to be between \$10 and \$15 million, also hinders its development, said Gil Crawford, general manager of Bethesda, Md.-based MicroVest, an asset-management company specializing in financing MFIs in developing countries.

"This is not a large market by international standards so it does not yet pay to have standardization and ratings on it," Crawford said.

Another barrier is that several MFIs are located in countries that are not watched closely by traditional rating agencies like Standard & Poor's or Moody's Investors Service, leaving it up to the investors to research factors such as political risk. "We may end up in countries like Mongolia that we know nothing about," Crawford said.

For their part, MFIs are now having to learn how to get money from local and global investors, rather than just their local commercial banks. They are polishing their skills in presenting key factors about their organization, their management structure, their growth strategy and even the risks they face.

They are also battling the perception that lending to the poor is risky. Once investors and regulators realize that repayment rates globally are at 98%, they hope the capital markets will become a larger source of funding.

Last year, BlueOrchard Finance SA, a Swiss investment-management boutique, teamed up with Morgan Stanley to sell \$100 million of five-year bonds backed by loans from microfinance institutions.

The award of a Nobel peace prize to Mohammad Yunus, who popularized microfinance lending in Bangladesh, has further increased awareness about extending credit to the poor.

Further, the concept of a double bottomline where investors look at social responsibility as well as profits is an increasingly popular theme among corporations and successful entrepreneurs.

"Investors want to invest in individuals," said Vijaylaxmi Das, chief executive of Friends of Women's World Banking, a group that supports low income household women's access to financial services in India.

To make that worthwhile, however, they may look to the microfinance industry to come together and offer a less disjointed picture.

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