

Reducing Barriers for Investment in Microfinance: The Role of Structured Finance, Rating and Benchmarking

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Workshop Summary

Forging new connections for continued innovation in generating more private investment in microfinance was the aim of the workshop. Private and public microfinance investors, mainstream rating agencies and microfinance raters, fund managers, and fund and structured finance experts joined the event, organised and hosted by KfW. Their working level and strategic discussions of experiences, existing approaches and methodological issues probed potential changes and tweaks to overcome current bottlenecks in microfinance investments, especially for private investors.

Examples of microfinance securitisations and microfinance investment funds sparked discussions of current ways of tackling common barriers, for instance by transferring risks. Challenges and opportunities through rating and benchmarking provided the focus for further discussions.

The packed agenda of two half days featured these sessions with short presentations or statements by panellists and created space for discussions on the panel as well as actively engaging the participants as the 'extended panel'. In bringing together hard nosed investors and mainstream rating agencies with microfinance investors and raters, the role as well as limitations of public and private investors, of structured finance, and of ratings stood at the centre of their vetting.

'Those were two intensive days well spent. I received many new ideas and a better understanding of microfinance, which will be useful for my work (...)' (investment banker, fund manager)

'Thank you for a very well organized and stimulating workshop. You really put together a useful event with the right format and for one time the right mix of participants.' (microfinance expert)

Results

Demand for foreign investment in microfinance is growing rapidly – whereby the quality of the capital is increasingly important with local currency financing in particularly high demand followed by long-term equity investment. Public investors alone cannot meet this demand. Bringing private investors into microfinance hinges on structuring risks and improving transparency and information.

Structured finance, such as microfinance securitisations, transfers risks and is a new pillar of financing for the (as yet) small pool of high performing MFIs – some 80 MFIs worldwide. Although still a new generation instrument for microfinance, such transactions will grow in importance for this market as MFIs mature – thus lowering the need of leading MFIs to tap other types of financing which are accessible to a broader segment of MFIs.

Ratings and benchmarking in microfinance is bound to evolve from the current nascent stage and become more professionalised. Drawing on specialist microfinance ratings to assess underlying assets is a conceivable approach but further work is needed in this area.

Public investors are usually the first movers and invest where no private investors are able or ready to do so. They also contribute to laying foundations, such as in strong governance, and form a core of like-minded investors preventing mission drift, which are prerequisites for private investors to join. As they are, however, fairly cumbersome partners with many requirements, private investors could readily overtake them. An opportunity and useful role for public investors is to strategically fill gaps ('the holes in the cheese') with their range of instruments and thereby bridge private investors into the market.