Robin Hood Finance Limited

Microfinance: An Outsider's View

A Good Thing. Who would say that microfinance was anything else? Helping poor people to improve their lot by their own efforts. "Give a man a fish and you feed him for a day. Teach him to fish, and you feed him for life".

I have to declare an interest. My company is called "Robin Hood Finance Ltd." and, as the name implies, one of the aims is to transfer value from rich to poor. The original rich for RHF are the large investment banks, and the poor are the smaller customers whom RHF helps to get the best deal. There is a real satisfaction in doing this, and there must be the same satisfaction in helping poor people to improve their lives.

The KfW conference in November, 2007 brought together the worlds of structured finance and microfinance. How can we "mobilise capital for the poor"? was the question. I am an outsider in the world of microfinance, but a long-time practitioner of structured finance. I learnt a lot, and hope I contributed something. These are my thoughts:

- The demand is there. Estimates vary, but no-one seems to dispute that there is a huge real need for funding poor people.
- The supply is there. I encountered a sometimes baffling array of abbreviationed and acronymed organisations from both private and public sectors. One speaker complained at the lack of investment opportunities.
- There was a lot of discussion about securitisation. This is a market I know well, but I was left wondering whether the application of securitisation was a solution in search of a problem. It is logical to use tranching, since various entities have different risk appetite, but whether the whole western securitisation structuring and funding apparatus is appropriate is not obvious to me. I see it as a toolbox, a set of techniques to be used as appropriate, rather than a package deal.

My main concern was that, if both supply and demand are there, where is the bottleneck? The impression I received was that there are many organisations chasing what someone described as "Tier I" MFIs. These are of a size and maturity where they are attractive to donors and lenders. But are they the only source of growth? In most economies, growth comes from the smaller and medium-sized companies, not the largest. Should we not be able to help newer, non-Tier I MFIs through their "teenage years"?

What is needed to make the non-Tier I MFIs more attractive to donors and lenders? My suggestion comes from the world of securitisation: get the procedures and systems right from the start. It should be possible to develop processes for credit and management which can, with minor adaptations, be used more or less anywhere, and which everyone recognises. I have dealt with international companies which have pretty much the same procedures in all countries. There are some local variations, but these can be kept to a minimum.

This would lead to the ability to create pools of assets from many growing MFIs which can be funded in various ways, whether via securitisation or otherwise. Rather like ISDA standard swap agreements, investors would know what they are dealing with.

How do we do this? I don't have a pat answer, but would be happy to add my expertise from the securitisation side to others' relevant experience to see how we can make progress on this. Then the available money might flow more efficiently to the poor people who really need it.

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