

"Microfinance, Is there really a crisis"

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The situation for microfinance is different than in most countries. Despite the massive poverty that followed the fall of Communism, microfinance institutions were slow to form. Now we are seeing real growth in the sector, but avoiding many of the difficulties that microfinance is having in other countries. For example:

1. Too many MFIs ("saturation")?

No. To the contrary we do not have enough MFOs which lend to entrepreneurs. Many of recently created MFOs are focused on Payday Loans instead. This is not useful for the industry as creates policy risks related with extra-high level interest rates. Only 200 of 500 registered MFOs lend to businesses.

2. Commercial investors demanding high returns.

Yes, this is true. And it's a part of explanation why MFOs trend to lend for PayDay loans. As it is more profitable than it's much easier to attract commercial investors. Of course, if specialized investors would provide cheaper funds to MFOs it would support MSE lending instead.

3. Clients who borrowed from Peter to pay Paul (over-indebtedness)

Russia is lucky to have a well-working system of credit bureaus. So, although this problem exists, it is not as crucial as in other countries. The credit bureaus contain 65 million records (2/3 of economically active population) and size of the database continues to grow. MFOs recently started to join credit bureaus too, so here is a solution.

4. Ruthless collection practices from non-payers ?

This is not a serious problem for MFOs, generally speaking. The problem lies mostly with the retail banks now. They are strongly criticized for passing bad debts to collection companies who often work aggressively. To stop this, the Government is going to decree a special Collection Act with certain norms describing collection practice. MFOs prefer to keep bad debts on their own balances working with them directly. I haven't heard of any real criticism of MFI collection practices yet.

5. How is the Russian situation different from that?

- Majority of local MFOs (apart from a very few created by foreigners) don't understand requirements of international investors and are not able to provide information that investors need for analysis. So it's hard for them to meet each other now. At the same time, I see that many MFOs are interested to attract international funds.
- During 2008-2009 crisis Russian MFOs mostly suffered from the lack of demand for loans (as people were frightened and preferred to save rather than to spend). But now situation is more stable and market has been growing for 6 quarters. Moreover, to support the industry, the Government has approved in 2010 the MFI Law which makes MF market more transparent, consumer- protective and attractive for investors.