

IAMFI Microfinance Lenders Working Group Overview

Background

IAMFI is a global membership organization dedicated to helping current and potential commercially oriented microfinance investors achieve their goals by offering industry information from an objective viewpoint, conducting independent research, hosting educational and networking events, and facilitating dialogue among industry actors to improve the global environment for microfinance.

As a trade association, IAMFI plays a key role in providing the forum and support for industry leaders to identify collective challenges and address them in a collaborative manner. As the worldwide recession and liquidity constraints continue, industry experts anticipate that some microfinance institutions (MFIs) will have difficulty repaying their obligations. Emergency liquidity funds may mitigate some immediate needs but they do not address the longer term inter-creditor issues arising from the commercialization of microfinance. Several of IAMFI's members requested IAMFI to spearhead a Microfinance Lenders Working Group to help lenders develop guidelines for handling microfinance debt defaults and restructurings.

IAMFI Microfinance Lenders Working Group Goals and Activities

The Working Group's goals are to achieve a better understanding of the legal and financial challenges associated with MFI debt defaults and restructurings, and to facilitate orderly workouts and liquidations. The Working Group's activities are: conduct research, share experiences and insights, solicit input from other stakeholders, develop processes, documents and guidelines for addressing defaults, and seek consensus on findings and recommendations. Through the Working Group, IAMFI supports its members and the broader microfinance community in resolving problem MFI loans.

Morgan Stanley, IAMFI member that also serves on its Board, is sponsoring the Working Group by providing strategic input, financial expertise and funding for the Group's activities.

Working Group Members

IAMFI's members constitute the Working Group and represent a wide range of stakeholders:

- Microfinance Investment Vehicles
- Limited Partner Investors
- Financial Institutions with experience in workouts
- Law firm with experience in workouts

The University of Michigan Law School's International Transactions Clinic (ITC), led by Deborah Burand, Esq., is providing legal support to the Working Group. IAMFI's Research Advisor, Julie Abrams of Microfinance Analytics, is conducting the Working Group's research. In addition, the Working Group seeks feedback from IAMFI member and non-member stakeholders to ensure the usefulness of its outputs and recommendations.

Process

IAMFI is managing the Working Group's activities. The Group has undertaken a diagnostic of investor goals and has created sub-groups to address specific issues relating to inter-creditor agreements, voluntary loan workouts and loan covenants. The research on representative cases of default will support the Group's efforts. IAMFI and Morgan Stanley host in-person meetings, teleconferences and Webinars for the sub-groups and full Working Group. The ITC is conducting legal research and drafting memoranda, boilerplate documents and annotated guides with input from legal experts, the financial industry and Group members.

The Working Group will present findings and recommendations for addressing the principal issues arising from problem loans. IAMFI will organize periodic sessions for the Group to present its recommendations for feedback to the broader group of stakeholders, including all of IAMFI's members, MIVs, development finance institutions, donors and MFI networks.

Timeline

IAMFI convened the Working Group in late October 2009. The Working Group seeks to finalize project outputs in July 2010.

Outputs

IAMFI envisions the following accomplishments resulting from the project:

- Summary review of representative cases of defaults and restructurings
- Analysis of warning signs leading to repayment issues
- Guidelines for MIVs seeking to create investor workout groups for specific credit events
- Guidelines for inter-creditor agreements
- Boiler plate loan agreement clauses that offer additional protections and flexibility
- Annotated guide for MFIs on inter-creditor agreements and workout groups
- Annotated guide for MFIs on the new loan clauses
- Final paper co-authored by Morgan Stanley and IAMFI summarizing the Working Group's activities and findings

About IAMFI

The International Association of Microfinance Investors (IAMFI) is a global membership organization dedicated to helping commercially oriented microfinance investors achieve their goals by offering credible, objective industry information, conducting research, facilitating dialogue and working to improve the global environment for microfinance. The association helps investors leverage their capital more effectively while increasing access to financial services for the unbanked poor.

About Morgan Stanley's Environment, Social Finance & Community Reinvestment Group

The Environment, Social Finance & Community Reinvestment Group provides strategic, integrated focus to the Firm's commitment to the environment, social finance, and community development. The group proactively partners with other Business Units across the Firm to identify, analyze, and execute business opportunities in these key areas that provide multiple bottom line returns to the Firm and to the broader community. The Environment, Social Finance and Community Reinvestment Group also fosters awareness throughout the Firm by mobilizing employees to give back to the community in ways that uniquely leverage the talents and passions of Morgan Stanley's current and future leaders.