Tying the Knot: A Guide to Mergers in Microfinance, by Elissa McCarter, is a lucid, useful guide to a timely subject. Anyone contemplating MFI mergers, and anyone responsible for the future of an MFI in a crowded market, should consult this book as well as its short companion volume of twelve case studies of (mostly) successful MFI mergers.

Tying the Knot takes the reader through explanations of key concepts; the arguments for and against mergers; important pitfalls, including ego, fear, and other human factors; and finally the actual mechanics of mergers. There is enough detail to demystify technical aspects of strategic planning, asset valuation and due diligence, although the book at no time pretends to replace professional external assistance. It is enriched both by references to worldwide experience in the area, particularly among financial and non-profit institutions, and by the author's own first hand experience of the merger of Save the Children's Micro-F and CRS's Kamurji in Armenia. The book gracefully weaves in and out among theory, cases, practical tips and checklists.

Mergers can lead to increased scale and improved efficiency of MFIs. They also often lead to the creation of new institutions with a higher level of regulation, allowing the new institution to offer more and hopefully better products. In rare cases, these advantages will be enough to create the urge to merge in MFIs, particularly between two strong and confident institutions with complementary products and markets.

However, these excellent reasons will seldom be enough to push MFIs towards the altar of consolidation, and, realistically, the principal incentive to MFI mergers is more likely to be the chilling realisation by management that their MFI faces a difficult future in a crowded, competitive market. The author points out that microfinance markets with long histories, such as Bolivia and Peru, and markets with limited numbers of potential clients, such as Armenia and Bosnia, are reaching saturation. To this list could be added markets where donor and government programs have led to an oversupply of institutions and branch networks; there may be dozens of countries in this category. In crowded markets, mergers can prevent the pain to stakeholders of slow institutional failure; increasingly, the choice for many institutions will come down to merger or closure.

Mergers are not easy, cheap, or always beneficial. This reviewer's experience with bank consolidation in the United States is discouraging: during an extended stay overseas, his own neighborhood bank branch changed names three times as larger fish gobbled smaller ones. The bank "upgraded" itself from friendly, first-name customer service to an opaque automated telephone answering system, and introduced charges for services that had previously been free. Two weeks ago my neighborhood branch closed, no doubt because it was too insignificant a profit center for the distant megabank that finally acquired it.

Yet mergers in microfinance are unavoidable, necessary, and *potentially* pro-consumer and pro-poor. Uganda, as one example, has an estimated 1500 MFIs serving 800,000 customers. Simple division gives an *average* institutional size of slightly more than 500 customers; at that point it is difficult to imagine how a stand-alone institution can viably provide affordable, professional services, particularly secure savings.

In such an environment, government policy makers and donors should work together to assure that, as much as possible, failing institutions are helped to a soft landing that protects their stakeholders through some sort of consolidation. We must face the reality that as rich, large MFIs take advantage of their inherent advantages of scale to sustain and increase their lead, smaller MFIs will have few options for going forward. Donors and policy makers need to convince MFI boards, staff, and international partners that there is no ignominy in merger or partnership in a crowded market, and that the only shame is in allowing catastrophic failure, with the pain it inevitably causes to customers and staff. Willingness to explore merger is an indicator of management strength, not weakness.

Finally, donors must acknowledge that in some cases they may have created a monster themselves by irresponsibly supporting growth in supply, based on inadequate analysis of long-term sustainability of demand. The time for facile round-number outreach targets has passed, and we will increasingly be dealing with problems of oversupply. Donors can atone for whatever sins of market distortion they may have committed by paying some of the costs of mergers. These costs can be startlingly high, for consultants, facilitators, severance pay and other exceptional payments to staff, technical issues of merging accounting, information, and service delivery systems, and rebranding.

The tone of *Tying the Knot* is that of a conversation with a microfinance practitioner who has been down the road of merger, who generously shares simple, constructive information based on her experience. One can hope that the author will take the time to update it periodically as worldwide experience in the new field of MFI mergers accumulates. A chapter on nascent efforts by donors and others to facilitate mergers – such as the *Consolidation Challenge Fund* in Uganda – might be a welcome addition.

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