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SKS Schedules IPO, Pricing to be Announced July 26

At last a date has been set! The long-anticipated initial public offering of India's SKS Microfinance is to take place from July 28 to July 30 with pricing to be announced on July 26. The sale, which is expected to raise roughly USD 250 million, will be managed by global financial conglomerate Citigroup, Zurich-based Credit Suisse and Indian financial services group Kotak Mahindra. Nearly one third of the offering, which will take place on the Bombay Stock Exchange and the National Stock Exchange of India, reportedly will be allocated to retail investors. Investors to date include Sequoia Capital, Vinod Khosla, Small Industries Development Bank of India, Bajaj Allianz, Yatish Trading, Kismet Capital, Sandstone Capital, Silicon Valley Bank and Unitus. SKS reported 2008 assets of USD 596 million with a return on assets of 3.68 percent and return on equity of 18.7 percent. Please see the following page for coverage of the debate surrounding the offering. July 13. 2010

ACBS Invests $39m in Integrated Microfinance Bank of Nigeria

Africa Capital and Business Support Limited (ACBS), a Nigerian financial intermediary, has announced that it will invest the local-currency equivalent of USD 39 million in Integrated Microfinance Bank Limited from a debt facility funded by Mainsail Trading Limited of Dubai. ACBS has committed USD 26 million to subordinated debt and earmarked USD 13 million for on-lending by Integrated, which temporarily ceased operations in September 2009 due to liquidity problems. Suisse Bank Plc, a UK-based bank that served as guarantor for the USD 400 million Mainsail investment, is currently considering five unnamed microbanks for investment, with plans to eventually invest in 50 institutions. June 29. 2010

IFC Syndicates $165m Loan for Brazil's Daycoval for SMEs

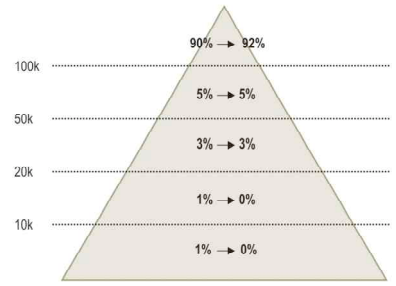
The International Finance Corporation, a member of the World Bank Group, with the participation of 11 international banks, has arranged a syndicated loan worth the euro-equivalent of USD 165 million to commercial Banco Daycoval with the aim of increasing access to finance for small and medium-sized enterprises in Brazil. The 11 participating banks are: Itau Europa, Standard Bank, HSBC, Calyon, Citibank, Oberbank, Banco Santander, Standard Chartered, WestLB, Commerzbank and ING. As of 2009, Banco Daycoval reported the local-currency equivalent of USD 3.9 billion in total assets, a total credit portfolio of USD 2.2 billion and net income of USD 119 million. June 25. 2010

(For more top stories, please refer to the subscriber edition.)

INSIDE Page

MicroCapital

SOUTH ASIA
MFI MARKET SHARE TRENDING 2006 TO 2008
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

EDITORIAL

The Last Well-kept Secret in Costa Rica

While the beautiful beaches and rain forests of Costa Rica are no secret among travelers in rich countries, as I scroll around the English-language microfinance industry websites, I wonder if I am just one of a handful of people from the "North" planning to attend the fifth bi-annual Central American Microfinance Conference on August 25 to August 27. The good news is that because the event is something of a secret, I have booked a low-rate room at the conference hotel and even managed to plan a family vacation around the visit. The bad news is that few of my colleagues outside Central America may attend this event, which promises to be an interesting forum for analyzing the repercussions of the financial crisis on a microfinance sector that has been particularly beaten down.

The conference is hosted by REDCAMIF, which is the only microfinance network that spans six countries, bringing together six national associations and 99 microfinance institutions (MFIs) serving 800,000 clients with an aggregate loan portfolio of USD 680 million - about the size of BRAC or Grameen in Bangladesh. According to REDCAMIF's inspiring Executive Director, Ivan Gutierrez, "the questions that will be presented at this conference will be the most interesting that we've had to address in years. We are not certain that the crisis is over, and - even if it is over - we are still unsure about its final impact on our institutions."

Central America is highly dependent on exports to the US and Mexico and also has some of the largest inflows of remittances in Latin America as a percentage of GDP. Political instability in Honduras and Nicaragua has added to existing economic problems. All of this has contributed to high levels of delinquency, shrinking portfolios and a liquidity squeeze. MFIs are only beginning to recover, and some won't make it. The problems of Central America are not unique, of course. MFIs across the globe have faced similar fallout from the financial crisis, and many have gone into consolidation and/or debt restructuring.

REDCAMIF's forum to share some of the apparent lessons and looming doubts promises to be useful both for MFIs in the region and those from other parts of the globe. Topics will include loan recovery strategies, overindebtedness in urban markets, funding and new strategies to become more competitive. The event will include important discussions on strategies to improve gender equality and expand rural lending. Ivan believes that "there will be a new composition of the microfinance sector in the region. We expect to see consolidation, new strategies and a greater rural presence of our MFIs. Banks are downscaling and driving greater innovation in our institutions." A visit to Costa Rica promises to provide insight as to which type of institution and strategy is best suited to emerge from the crisis…no Pacific surf can beat that thrill!

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has 15 years of international finance and development experience and has worked with organizations including Goldman Sachs, Chase and BBVA and has advised institutions such as the International Finance Corporation, the US Agency for International Development and the International Labour Organization. She may be reached at +1 212 734 6461 or bmagnoni@eac-global.com.

PAPER WRAP-UPS

Where Does Microfinance Flourish? Microfinance Institution Performance in Macroeconomic Context

By Christian Ahlin, Jocelyn Lin and Michael Maio; published by the Journal of Development Economics; April 27, 2010; 16 pages; available at: http://news.msu.edu/media/documents/2010/06/8d6d8126-97dd-4569-b65b-736f700fc844.pdf

The authors study whether and how the success or failure of microfinance institutions (MFIs) depends on country-level context, particularly macroeconomic and macro-institutional features. In order to explore these questions, the authors review data on 373 MFIs from 74 countries. The authors rely on two groups of MFI performance variables: operational self-sufficiency (the ratio of revenues to costs) and loan portfolio growth. Operational self-sufficiency is broken down into three components - financial revenues and costs, losses due to default and operating costs - so that the authors can in some cases identify the channel through which a given macroeconomic variable is correlated with the financial sustainability of a MFI. MFI portfolio growth is decomposed into two components: growth in number of borrowers (extensive growth) and growth in average loan size (intensive growth).

This data set is then merged with country-level economic and institutional data from the World Bank's World Development Indicators (WDI) and the World Bank's "Doing Business" indicators. The four main indicators of economic performance and structure are: growth in per capita GDP (gross domestic product - an approximation of the value of goods produced in the country), labor force participation rate, manufacturing's share in GDP and private credit as a fraction of GDP. A number of additional variables including inflation and income inequality are also taken from WDI.

Using linear regression analysis, the authors find strong macroeconomic predictors of MFI performance. First, MFIs cover costs better when macroeconomic growth is higher, due in large part to lower default rates and operating costs. Financial depth, which is a measurement of the strength and security of the country's financial market, is also associated with lower default rates and operating costs. However, this generally translates into lower interest rates rather than greater MFI self-sufficiency, which suggests that financial market competition may be good for borrowers.

The authors also found that MFIs generally grow more successfully in countries with less of a manufacturing base, likely because manufacturing jobs tend to crowd out the more entrepreneurial "jobs" generally supported by microloans. Similarly, MFIs perform better in countries with lower workforce participation rates.

The study also suggests that the structure of an economy impacts MFI performance. A large service sector predicts faster MFI growth, while a larger rural population predicts lower default rates, operating costs and interest rates. This result is somewhat surprising as the common perception is that costs are higher in rural areas due to lack of infrastructure and to higher transportation costs. The authors, however, hypothesize that there is greater social cohesion in rural contexts, which lowers monitoring, collection and default costs. It may also be that rural borrowers benefit more from and are more reliant on MFIs, which leads to greater repayment discipline. Although this does not result in higher profits for the MFI, it does lead to lower interest rates for borrowers... *(Continued in the subscriber edition)*

PAPER WRAP-UPS

Tanzanian Micro Enterprises and Micro Finance: The Role and Impact for Poor Rural Women

By Lucy Ssendi and Alistair R. Anderson, Journal of Entrepreneurship, 2009, 19 pages, available for purchase at: http://joe.sagepub.com/content/18/1/1.abstract

This paper examines the role of microfinance in Tanzania, where, according to the International Labour Organization, high levels of poverty combined with slow economic growth have forced a large percentage of the population into self-employment and informal activities.

The authors begin by exploring the general nature of microfinance in rural Tanzania and presenting the types of finance available to the poor. They find that formal financial institutions operate mainly in urban areas - largely because of the perception that transaction costs are higher in rural areas. Services are relatively scarce in all areas because most formal financial institutions find it difficult to deal with microentrepreneurs because of the lack of collateral, the perception of a high incidence of defaults and the disproportionately high transaction costs associated with issuing of small amounts of credit. As a result, as much as 80 percent of the population in Tanzania is excluded from reliable access to banking services. Women's access to formal sources of credit is particularly restricted as they generally lack collateralizable assets, including land. Women are estimated to own about 19 percent of registered land, and their plots are less than half the size of those of their male counterparts. Overall, 5 percent of Tanzanian women are estimated to be banked as of 2008.

There are a growing number of semi-formal and informal financial alternatives in Tanzania, including microfinance institutions (MFIs) run by NGOs and rotating savings and credit associations (ROSCAs). ROSCAs, which are called "upatu" in Tanzania, are the simplest form of financial intermediation considered in this paper. In a ROSCA, a small group of people, generally between 15 and 30, form a group and contribute an agreed amount at regular meetings. The entire fund is then distributed to each member on a rotating basis, until everyone in the group has received a loan. The system involves a high degree of flexibility, with the participants determining the size of the group, the amount to be saved, the frequency of contributions and how the funds can be used. Because ROSCAs are largely self-operated, transaction costs are relatively low and, therefore, they are able to reach poorer individuals. Risks are also relatively low because the process of self-selection allows for a high level of mutual understanding and trust. However, the method of self-selection also creates the risk of excluding the poorest members of society.

The authors then examine the impact of one particular NGO-MFI, the Small Entrepreneur Loan Facility (SELF) project. By means of a survey, they compare sample households of SELF clients to those of non-clients at a point in time. They find that participation in the SELF program has had some benefit in increasing the self-reported profitability over time of microenterprises run by rural poor women. However, only one-fourth of loan recipients reported any change in terms of social benefits, defined to include nutrition, housing and clothing. Furthermore, they found little long-term effect as measured by increases in household assets.

Overall, Ms Ssendi and Mr Anderson conclude that although microloans may improve the profitability of microenterprises... *(Continued in the subscriber edition)*