MicroCapital Monitor
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MICROCAPITAL BRIEFS | TOP STORIES

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China to Remove MFI Interest Rate Cap

The People's Bank of China, the central bank of China, has announced plans to legalize private lending and to remove the cap on microfinance institution interest rates that are now capped at four times the prime lending rate, which currently stands at 5.31 percent. March 15. 2010

India's Janalakshmi Raises $10m from Tree Line, Bellwether, Others

Janalakshmi Financial Services (JFS), an Indian microfinance institution, recently announced that it has raised the local-currency equivalent of USD 10 million in its second round of funding from a group of investors that includes Tree Line Asia Master Fund (Singapore) Private Limited, a hedge fund with offices in Hong Kong and Singapore; Bellwether Microfinance Fund, a private equity fund based in India; and JFS board member Narayan Ramachandran. JFS reports a gross loan portfolio of USD 18.6 million and 100,000 customers. March 9. 2010

IFC Loans $6m to Fundacion Mundo Mujer of Colombia

The International Finance Corporation, the lending arm of the World Bank, recently announced that it will provide advisory services and a USD 6 million loan to Fundacion Mundo Mujer (FMM), a Colombian NGO that offers microcredit services, in order to help FMM transform into a regulated financial institution to increase its range of product offerings. An affiliate of Women's World Banking, FMM reports a total loan portfolio of USD 154 million, 30 branches and 265,000 clients. March 9. 2010

Central Bank of Kenya Grants First Credit Bureau License

The Central Bank of Kenya recently granted an operational license to Credit Reference Bureau Africa, which currently is active in 12 countries. This is the first licensing of a credit bureau in Kenya, and plans are reportedly under way to establish two additional credit bureaux: Metropol Credit Reference Bureau and Compuscan Limited. March 4. 2010

EBRD, FMO, TaiwanICDF Loan $68m to Turkey's Garanti Bank

The European Bank for Reconstruction and Development; the Netherlands Development Finance Company (FMO); the International Cooperation and Development Fund, a Taiwanese development fund; and five commercial banks recently loaned an aggregate euro equivalent of USD 68 million to Garanti Bank, a Turkish commercial bank, to increase its lending to micro-, small and medium-sized enterprises. The loan will benefit the Women Entrepreneurs' Support Package, which offers special lending rates, letters of credit, long-term loans and pension programs. Garanti Bank reports total assets of USD 65 billion and 8 million customers. February 16. 2010

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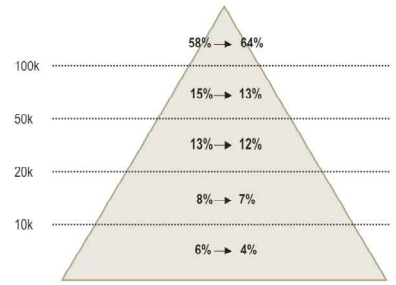
MicroCapital

LATIN AMERICA AND CARIBBEAN
MFI MARKET SHARE TRENDING 2006 TO 2008
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

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financeinmotion
INVESTING IN DEVELOPMENT

MEET THE BOSS

Florian Meister is one of the founders and managing directors of Finance in Motion

Florian Meister

MicroCapital: What is your professional background?

Florian Meister: I spent 13 years in investment banking after I completed my MBA, which is not the typical background for people working in microfinance. I rose through the ranks, eventually managing a 30-man team at the Frankfurt subsidiary of a large investment bank. While I was working in corporations and consultancy and investment banking, I wondered why we in the Western world had so many luxurious televisions and cars and why 80 percent of the world's people had very little of these sorts of things. This fundamental inequality in development was something that puzzled me and weighed on my conscience, which is not good for a long-term career in investment banking. As time went on, there was a declining number of value-added projects available in the Western world, which resulted in the asset bubbles we have seen recently. I decided I didn't want to push the next hype or participate in building the next bubble.

MC: Please describe Finance in Motion.

FM: Finance in Motion was set up in September of 2009. It currently consists of 55 people and is still expanding. We advise structured development finance funds with a public-private partnership approach. Our original focus was on the microfinance investment vehicle (MIV) European Fund for Southeast Europe (EFSE). We have recently received a mandate to focus on energy efficiency and renewable energy through the Green for Growth Fund, Southeast Europe (formerly Southeast Europe Energy Efficiency Fund), which was initiated by Germany's KfW and the European Investment Bank. KfW is also the initiator of EFSE, which currently has the equivalent of USD 850 million in assets under management, while the new energy fund has committed capital of USD 135 million.

MIVs and development finance funds are our primary customers. The asset side includes customers like microfinance institutions (MFIs), banks and initiators of renewable energy or energy efficiency projects. However, the ultimate customer is the receiver of the credit that we make available. EFSE, for example, has over 100,000 end borrowers.

On the liabilities side, our customers span a wide range, including private investors that want to diversify their assets and receive a risk-weighted return while drawing a certain social dividend. We also work with donors whose focus is primarily to achieve a desired social change and to leverage their available resources in doing so. By way of illustration, EFSE has about one third large, international donors, one third international finance institutions and one third private investors.

MC: What partnerships are central to your work?

FM: Sal. Oppenheim, a large bank that is in the process of merging with Deutsche Bank, serves as investment manager for both of the funds we advise. It is responsible for acquiring investors for the fund, making certain dispositions of cash and looking after risk ratios. Finance in Motion leads the process of structuring the funds, sets up the governance and policies, leads identification of possible assets, completes due diligence and creates the investment proposals that are presented to the funds' investment committees. Once investments have been extended, we are in charge of monitoring risk. If we detect any sign of weakness in the institution, we can provide technical assistance. We are also responsible for social performance reporting and the coordination of service providers. When there is a crisis, Finance in Motion makes the first move to set up a working group to address the issue.

Other important relationships include the custodian, the auditor and the lead counsel. All of these relationships need to interlink, otherwise there are delays. And most importantly, we also maintain good partnerships with the banks and MFIs in the regions where we invest through our network of seven regional offices across Southeast Europe. Maintaining relationships with people like central bank governors who are spokespeople for the sector is also important.

MC: What is the next challenge in microfinance?

FM: One challenge for investors is making sure that an investment intended to be made in microfinance is actually invested in the sector. The institutions to which we lend money keep changing and developing. It is important that investors work with MIVs that make it clear where investments are going and whose management is able to deal with crises, to apply technical assistance and to maintain strong relationships in the field. This is a structure that Finance in Motion can provide.

MC: What trends do you see going forward in microfinance?

FM: Microfinance is maturing in some markets, so there is a healthy degree of institutional competition now. Small institutions that started with donor money have grown, have expanded their balance sheets and are now competitive. MFIs will expand their governance structures and be open to additional business lines. There will be consolidation through mergers or outright purchases, with the better positioned MFIs becoming deposit-taking institutions or regulated institutions. MFIs will be more aware of risks in their balance sheet, such as balance gaps or lending in local currencies. For example, borrowers in Southeast Europe are asking for options besides the euro. Thus, we've just completed a local-currency deal in Moldova. MFIs will also pay more attention to providing socially responsible products because there is backlash from politicians and consumers, as well as investors.

Some markets will naturally become more saturated. That's a sign that we've done a good job. In a way, we are there to make ourselves at least regionally superfluous. We will find increasing geographic diversity in given regions and differences between urban and rural areas. We have to look harder for the niches.

MICROFINANCE DEALBOOK

POWERED BY MicroCapital

TOP FEBRUARY 2010 MICROFINANCE TRANSACTIONS

The CGAP Microfinance Dealbook publicizes microfinance capital market transactions in an effort to bring greater transparency to the industry. Additional deals are published periodically at http://www.microcapital.org/cgap-microfinance-dealbook. Parties to microfinance transactions are also encouraged to submit their deals via this website.

Investor	Investee	Region	Amount (USD)	Type
Asian Development Bank	Small Industries Development Bank of India	SA	35,000,000**	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	Spandana	SA	15,000,000	Debt
Bajaj Allianz Life Insurance Company	SKS Microfinance	SA	~10,500,000	Debt
Religare Asset Management Company	SKS Microfinance	SA	~10,500,000	Debt
Unspecified	Financiera Independencia	LAC	~10,500,000	Equity
Unspecified (arranged by Symbiotics)	LOLC Micro Credit Limited	SA	10,000,000	Unspecified
Unspecified	Spandana	SA	~5,300,000	Debt
European Bank for Reconstruction and Development	ProCredit Bank Moldova	ECA	5,000,000	Debt
European Bank for Reconstruction and Development & European Fund for Southeast Europe	ProCredit Bank Moldova	ECA	~5,000,000	Debt
Triodos Microfinance, Triodos Fair Share & Hivos-Triodos Funds	LOLC Micro Credit Limited	SA	4,000,000	Debt
ASN-Novib Fund (Triple Jump)	Crear Arequipa	LAC	3,000,000	Debt
Development Fund of Kyrgyzstan & Asia Universal Bank	AUB-AGRO Microcredit Company	ECA	~2,200,000	Equity
MicroVentures India	Sahayata Microfinance Pvt Ltd	SA	~2,200,000	Debt
ASN-Novib Fund (Triple Jump)	Demir Bank	ECA	2,000,000	Debt
Impulse Microfinance Investment Fund (Incofin)	Financiera Confianza	LAC	~1,580,334	Debt
ASN-Novib Fund (Triple Jump)	Edpyme Alternativa	LAC	1,500,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	Kompanion Financial Group	ECA	1,500,000	Debt
Standard Chartered	CARD Bank	EAP	~1,500,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	CREDIT MFI	EAP	1,200,000	Debt
International Finance Corporation	MicroCred Senegal	SSA	~1,200,000	Equity
responsAbility Global Microfinance Fund	Nueva Vision	LAC	~1,127,954	Debt
Oikocredit	Cashpor	SA	~1,083,503	Debt
Oikocredit	Interactuar	LAC	~1,029,476	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	TPC	EAP	~1,025,022	Debt
responsAbility Global Microfinance Fund	Contactar	LAC	~1,012,160	Debt
Vision Microfinance Fund (Absolute Portfolio Management)	Hattha	EAP	1,000,000	Debt
Vision Microfinance Fund (Absolute Portfolio Management)	Crezcamos	LAC	1,000,000	Debt
SONAM	MicroCred Senegal	SSA	~850,000	Equity
Oikocredit	EMFIL	SA	~845,132	Debt
ASN-Novib Fund (Triple Jump)	Findev	ECA	800,000	Debt
Oikocredit	FUCAC	LAC	~792,066	Debt
responsAbility SICAV Microfinance Leaders Fund	BFSF	WW	~756,230	Equity

Regions: *EAP - East Asia and Pacific, ECA - Europe and Central Asia, LAC - Latin America and Caribbean, MENA - Middle East and North Africa, SA - South Asia, SSA - Sub-Saharan Africa, WW - Worldwide*

Amounts: *Deals denominated in local currency are indicated by a tilde (~); a double asterisk (**) indicates that the transaction included funding of non-microfinance services and the amount shown is an estimate of the allocation specifically to microfinance*

EDITORIAL

Honoring International Women's Month: Thoughts on Reducing Women's Financial Vulnerability

This week, the International Labour Organization's Microinsurance Innovation Facility received proposals for a fourth round of grants aimed at encouraging innovation and learning in microinsurance. The response, we hear, has been very positive. Earlier this year, I suggested that savings would be the next big thing in microfinance. I still believe that to be the case. However, let's look at some numbers to see where insurance can fit into the "access to finance" puzzle.

In a study EA Consultants will be publishing soon on gender and microfinance for the International Development Bank's Multilateral Investment Fund, we looked at some figures in Nicaragua. (My apologies in advance for repeatedly using this country as an example, but I have really good data from Nicaragua.) A 2007 survey of over 2,000 market vendors showed that women were able to set aside about USD 30 per month - not necessarily directed into formal savings accounts. In 2008, this dropped to about USD 15 a month. Savings balances of women also declined sharply from USD 161 to USD 77. Interestingly, men's savings balances increased over the period from USD 138 to USD 240.

We interviewed some of these businesses to understand why. It seems that women's businesses, which are typically smaller, have had a harder time staying afloat as margins have been squeezed. As a result, women are drawing down on savings to cover household expenses. Men's businesses, which are typically bigger, still seem to be providing enough of a positive return to set money aside (up from USD 23 per month in 2007 to USD 28 per month in 2008).

The data are suggestive. Women's ability to save, which was greater than men's despite their smaller business size in 2007, enabled them to use their savings as a way to smooth out cash flows in harder times. But this leaves them with limited savings left over for investing in their businesses or for emergencies that may arise such as critical illnesses, accidents, loss of property or a death in the family. These women just don't have the ability to save enough to cope with such losses, which can cost upwards of USD 1,000. At 2008 savings levels (USD 15 per month), it would take eight years to save USD 1,000, assuming zero interest.

There are two implications: the first is that women, with typically smaller businesses, will need help getting their businesses to grow. The second is that when unexpected and costly events happen, women will likely turn to borrowing, often making payments in the area of USD 90 per month to cope. Finding the right insurance product for women may allow them to reduce their risk management strategy's dependence on borrowing in favor of more effective options.

Ms Barbara Magnoni is President of EA Consultants of New York. An international development professional with over 14 years of international finance and development experience, she has worked at public and private organizations including Goldman Sachs, Chase, BBVA, EMPower and the US Agency for International Development's Development Credit Authority. She may be reached at +1 212 734 6461 or bmagnoni@eac-global.com.

PAPER WRAP-UPS

Due Diligence Guidelines for the Review of Microcredit Loan Portfolios

By Robert Peck Christen and Mark Flaming, published by CGAP (Consultative Group to Assist the Poor), December 2009, 58 pages, available at: http://www.cgap.org/gm/document-1.9.36521/DueDiligence_TechGuide_ENG.pdf

This paper offers a method of evaluating the underlying quality of loan portfolios of microfinance institutions (MFIs), offering "a comprehensive checklist of what to analyze, some instruction about appraisal technique, and very little guidance about how to interpret the results."

The authors argue that MFIs have become more integrated into regulated financial systems and now operate more like commercial banks, taking deposits and leveraging commercial funding. Also, they state that conventional methods fail to adequately assess the underlying portfolio quality of MFIs, which can lead to liquidity crises. According to this paper, conventional methods, such as "external audits, ratings, evaluations and even [direct] supervision, too often fail to identify the primary risk - the inaccurate representation of portfolio quality."

Based on the existence of an audit report, conventional appraisal methods typically assume that the information reported about an MFI's portfolio quality is correct.

The paper guides the analyst through a three-tiered approach for assessing the performance of an MFI's loan portfolio and how well it is managed, including ascertaining the accuracy of accounting and performance reports about the portfolio and the MFI's compliance with its own portfolio management policies.

Tier I is a five-day review of the MFI's basic policies, procedures and systems for managing and reporting on its loan portfolio. The primary objective of this review is to determine if the MFI has adequate policies, operating systems and management capacity to support portfolio quality. The Tier-I assessment is based largely on (1) on-site interviews with senior management about portfolio trends and (2) the policies, procedures and systems for managing the loan portfolio. The analyst will collect documents and reports, such as audited financial statements, accounting policy manuals, credit policy and procedure manuals, loan portfolio reports and manuals that govern the management of external auditors. In addition, the field visit provides... *(Continued in the subscriber edition)*

Microfinance and Inequality

By Hisako Kai and Shigeyuki Hamori, published by the Macrothink Institute, 2009, 12 pages, available at: http://www.macrothink.org/journal/index.php/rae/article/viewFile/304/183

This study analyzes cross-sectional data from 61 low-income countries to determine whether microfinance is associated with reduced income inequality. The focus on microfinance is in contrast to considering financial institutions in general because the authors take the position that traditional commercial financial institutions focus on wealthy borrowers, potentially worsening income inequality.

The "intensity" of microfinance in a given country is measured by the number of microfinance institutions (MFIs) and the number of borrowers from MFIs. The first model uses microfinance intensity to examine whether there is a correlation of microfinance intensity with inequality, while the second model uses the logarithm of microfinance intensity for the same purpose.

Inequality is measured using the Gini coefficient, a common measure of statistical dispersion. Several control variables are used, such as... *(Continued in the subscriber edition)*