

## MICROCAPITAL BRIEFS | TOP STORIES

### BlueOrchard Reports 4 to 8% Returns for 2008

Initial financial results from BlueOrchard indicate the firm reached USD 870 million in total assets under management during 2008, of which USD 670 million was invested in microfinance institutions. Each of the funds managed by BlueOrchard returned between 4 and 8 percent during the year. BlueOrchard's strategy is to acquire minority stakes and assume an active governance role in MFIs worldwide. April 6, 2009

### India's Bandhan Sells \$35m in Loans to Commercial Banks

Bandhan, an Indian microfinance institution, has sold the equivalent of USD 35.4 million in farm loans to the following domestic commercial banks: IndusInd Bank (USD 14.8 million), Punjab National Bank (USD 11.8 million), Development Credit Bank (USD 4.9 million) and Kotak Mahindra Bank (USD 3.9 million). Such moves allow Bandhan to avoid international lenders that have been more heavily impacted by the global credit crunch. The transactions also help both parties meet government-imposed thresholds: Bandhan improves its capital adequacy ratio, and banks raise their agricultural lending ratios. As of March 2008, Bandhan reported 900,000 borrowers, a gross loan portfolio of USD 82.4 million, total assets of USD 102.4 million, a debt-equity ratio of 11.16 percent, return on equity of 62.44 percent and return on assets of 5.06 percent. April 6, 2009

### Indian MFIs Raise \$38m Assigning Loans to YES Bank

YES Bank of India recently concluded the following group of transactions valued at a total of USD 38.3 million: (1) a USD 17.2 million rated loan assignment originated by SKS Microfinance Private Limited, (2) USD 10 million in rated non-convertible debentures and commercial paper issued by SKS, (3) a USD 8.6 million rated loan assignment by Share Microfin Limited and (4) USD 2.5 million in rated senior tranche pass-through certificates backed by Equitas Microfinance India loans. The four transactions together cover loans made to roughly 400,000 microborrowers. March 24 and April 6, 2009

### Amid Mass Rejections, Bangladesh Extends Licensing Deadline

The Microcredit Regulatory Agency of Bangladesh has announced that the deadline for microfinance institutions to attain licenses has been extended from June until December. Out of 4,240 applications submitted so far, 1,000 have been processed, and 60 percent of those have been rejected. March 30, 2009

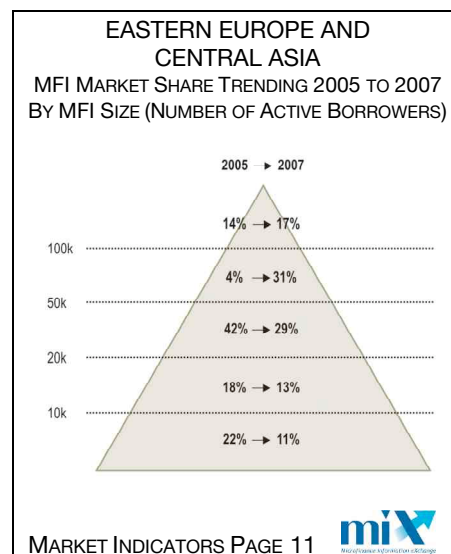
### Mexican Bank Closing Microfinance Arm After Loss of \$8.4m

*The Wall Street Journal* has reported that Grupo Financiero Banorte SAB, a major Mexican bank, is closing its microfinance division Creditos Pronegocio after it suffered losses of USD 8.4 million during 2008. Nonetheless, Mexican microlenders Financiera Independencia SAB and Banco Compartamos SA expect their loan books to grow between 10 and 25 percent during 2009, much more than the Association of Mexican Banks general banking forecast of 6 to 8 percent growth. March 26, 2009

### Nigeria to Prosecute Microcredit Loan Defaulters in Anambra

Nigeria's Anambra State has moved to prosecute farmers who have defaulted on the repayment of microcredit loans. In 2008 Anambra State loaned the equivalent of USD 1 million to some 2,339 farmers. Sam Okiwe, Secretary of Nigeria's Ministry of Agriculture, reportedly has said that some of the farmers who benefited from the loans are deliberately refusing to pay the government back and that - at the request of Anambra government - "We have sent the names of the first batch of defaulting farmers to the Ministry of Justice for necessary action with regards to their prosecution." March 24, 2009

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## MICROCAPITAL BRIEFS

### India's Grama Vidiyal, Madura Report Credit Growth

For the year ending March 2009, Indian MFIs Grama Vidiyal and Madura Microfinance reported significant credit growth, in part because commercial Indian banks eased credit at the close of the year in order to meet government-required agricultural lending targets. Grama Vidiyal's disbursements grew 81.2 percent to USD 74.6 million, and Madura's grew 33 percent to USD 25.3 million. Grama Vidiyal CEO Arjun Muralidharan said, "We faced a credit crunch during the [third quarter] of fiscal 2009 because banks tightened their lending. But towards the end of the year, banks eased credit in order to meet their priority sector targets and now things are normal." Grama Vidiyal reports 224,108 active borrowers, a gross loan portfolio of USD 28.9 million, total assets of USD 30.8 million, a debt-equity ratio of 5.45, return on assets of 1.63 percent and return on equity of 15.3 percent. Madura has 182 branches and disbursed loans of USD 35 million in fiscal 2007. April 10, 2009

### Bank of Ceylon Adding Branches in War-torn Sri Lanka

The chairman of Sri Lanka's Bank of Ceylon Dr Gamini Wickramasinghe has announced that the bank will open several more branches in the Northern and Eastern Provinces of the country, anticipating that high demand for services will follow the violence that may be ending there. In addition to traditional branches, the bank will add 11 mobile units, nine automatic teller machines in the North and seven in the East. With 305 local and three overseas branches, government-owned Bank of Ceylon reported total assets of USD 3.8 billion for 2007, gross loans of USD 2.5 billion, return on assets of 1.11 percent before tax and return on equity of 14.59 percent after tax. April 9, 2009

### MicroPlace Offers 6% on Nicaragua Fund

MicroPlace is offering up to 6 percent annual returns on minimum investments of USD 20. Funds invested in eBay's MicroPlace are passed to other entities - in this case Working Capital for Community Needs (WCCN). Nonprofit WCCN, formerly the Wisconsin Coordinating Council on Nicaragua, is raising the money for its Nicaraguan Credit Alternatives Fund, which holds USD 8 million in loans outstanding to 15 partner microfinance institutions. April 9, 2009

### BURO Bangladesh to Raise \$14m in Syndicated Loans

Microfinance institution BURO Bangladesh has announced that it will raise the equivalent of USD 14.52 million through syndicated loans arranged by Citibank NA. The five-year loan agreement stipulates an interest rate of 15 percent for the first six months with a floating rate linked to government treasuries thereafter. Funders include Citibank NA, Sonali Bank, Agrani Bank, Pubali Bank, Mutual Trust Bank, Southeast Bank, United Commercial Bank, National Bank, Dhaka Bank and Eastern Bank. The commitment of 30 percent of the proceeds to the agricultural sector stems from a recent push by the central bank to encourage agricultural credit. With 393 branches across Bangladesh, BURO had a gross loan portfolio of USD 45.4 million and 496,000 active borrowers as of December 2008. April 8, 2009

### Does "More Commercialized" Equal "Less Resilient"?

In a recent Radio Australia interview, Jamie Bedson of the Banking With the Poor Network argued that, although, "the fundamentals [of microfinance] are safe," the recession could have a major impact on some microfinance institutions: "[During] the financial crisis in 1997, a lot of microfinance institutions survived; they came out of that strongly because they were not integrating into the global financial system to the same degree. However in the last few years, the microfinance industry [has] commercialized...." April 8, 2009

### CGAP and WIZZIT Offer Branchless Banking in Rural South Africa

CGAP (Consultative Group to Assist the Poor) has announced that it will collaborate with WIZZIT to use mobile technology to provide branchless banking services to poor people in rural South Africa. The effort involves: (1) a mobile banking payment service for wholesalers serving more than 500 small "spaza" shops in the township of Motherwell and (2) an "easy" account opening effort distributed via direct sales, the postal service and Dunn's, a major clothing retailer, which will also test a preferred pricing scheme for participants. CGAP is a think tank housed at the World Bank. WIZZIT, a division of the South African Bank of Athens Ltd, offers cell-phone-based banking that operates across cell networks, SIM card types and cell phone models. April 8, 2009

### Uganda Tries to Make SACCOs Safe

Microfinance Minister Ruth Nankabirwa of Uganda has announced that there will be greater regulation of Savings and Credit Co-operative Organizations (SACCOs) in order to protect depositors. Certain Ugandan microfinance institutions have reportedly made a habit of operating for a few months in a particular region and then relocating along with depositors' savings. April 7, 2009

### Colombia's Grupo Aval Ponders Microcredit

Grupo Aval SA of Columbia has announced that it will offer microlending services targeting the poorest sectors of the economy. While details remain scarce, a joint venture with Grameen Bank of Bangladesh has been raised as a possibility. April 7, 2009

### Zimbabwe Microfinance Association Calls for Funding

Mandas Marikanda, Board Chair of the Zimbabwe Association of Microfinance Institutions, is encouraging its members to revisit their operational and financing strategies to grow the country's microfinance sector. In particular Ms Marikanda stressed the need to identify appropriate options for recapitalization, such as the association's efforts to establish a donor-financed fund. Struggling with hyperinflation, microfinance institutions are often unable to maintain the required minimum capital of USD 5000. Even before this capital requirement took effect in August 2008, only 150 MFIs were operating out of 309 registered institutions. April 6, 2009

### CORRECTION

The March 2009 issue of this newspaper referred to Pro Mujer as "affiliated with five microfinance institutions in Latin America." In fact Pro Mujer is a single nonprofit with operations in five Latin American countries.

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- ☺ Consulting and expertise provided to 228 microfinance institutions and banks
- ☺ 96 rating missions
- ☺ EUR 125 million lent to 52 microfinance institutions
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### Yunus Touts Deposits in Lieu of Foreign Currency

Nobel laureate Muhammad Yunus warned at a recent conference in India that, “[F]oreign money is not a great idea at all.... [T]he best solution is to create yourself into a bank, taking deposits and lending money.” A series of papers by CGAP (Consultative Group to Assist the Poor) published in 2006 found that, over seven years, the deposit-taking MFIs that were studied experienced massive growth, strong profitability and improved efficiency. Mr Yunus also spoke in favor of India establishing a microfinance-specific banking law, such as the one currently before the Indian Parliament. April 6. 2009

### Applying the Principles of Group Lending to Bank Bailouts

Jamie Zimmerman, Deputy Director of the Global Assets Project, argued recently in the weekly *Christian Science Monitor* that, “A system of peer pressure, like the one commonly used in microfinance, in which an individual’s success depends on the responsible behavior of the overall group, could prove useful for the global financial system. Had such interdependence existed earlier, the financial community might have prevented a few bad actors from poisoning the well with exotic instruments and ludicrous leverage.” April 6. 2009

### Mobile Banking Sluggish in Latin America

The mature state of the microfinance industry in Latin America should provide a strong platform for mobile banking to reach people in rural areas, according to a report from Inter-American Development Bank (IDB) and Spain’s Fundación Telefónica. Despite relatively high usage of mobile phones in Latin America, m-banking has grown slowly in the region, relative to Africa and Asia. Upon releasing the report, IDB also announced the completion of a pilot program with the Federation of Colombian Coffee Growers that will eventually allow 300,000 growers to use mobile phones to make payments, withdraw money from commercial establishments and check coffee prices. April 3. 2009

### Grama Vidiyal, Madura, SKS to Offer Home Loans in India

Indian microfinance institutions Grama Vidiyal, Madura Micro Finance and SKS Microfinance will all reportedly begin offering home loans to existing rural borrowers with good repayment records. Loan sizes are expected to range from the equivalent of USD 985 to USD 3900, repaid in equal monthly installments, sometimes with a four-month repayment holiday during construction. April 2. 2009

### Cambodian MFIs Foresee Defaults Surpassing 1% in 2009

Cambodian microfinance institutions (MFIs) are predicting that non-performing loan (NPL) rates will rise significantly this year. Prasac MFI Ltd and Amret have already reported upticks, with Amret General Manager Chea Phallarin stating, “Last year, NPLs were only 0.06 percent out of the USD 54 million in total lending - but since the start of the year, the NPL rate has increased sharply to around 1 percent.... For the whole year, it is forecast at 1.2 percent.” (While Amret and Prasac both reported eyebrow-raising NPL rates of under 0.3 percent in 2008, a 2006 CGAP competition measuring transparency in MFIs worldwide found excellent results for these and other Cambodian MFIs.) April 1. 2009

### Microfinance Leaders Endorse Principles of Client Protection

The Campaign for Client Protection in Microfinance, which was announced in the November 2008 issue of this newspaper, recently held the initial meeting of its steering committee to develop implementation plans. Please support this critical effort by endorsing the campaign at <http://www.campaignforclientprotection.org/>. April 1. 2009

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### Ghana to Investigate Disbursement of Loans to Rural Women

The Ministry of Women's and Children's Affairs in Ghana will be launching an investigation into Micro-finance and Small Loans Centre (MASLOC), the country's microfinance agency. Women's and Children's Affairs Minister Akua Sena Dansua reportedly has stated that women in the Eastern Region have yet to be given access to funds that were allocated six years ago. Ms Dansua added that other women who were "not supposed to benefit from the scheme" were granted loans, resulting in a high default rate. While data on defaults is scarce, one 2006 report pegged repayment at 60 percent. MASLOC was introduced in 2004 as part of a poverty reduction strategy laid out by the government of Ghana and the World Bank. April 1, 2009

### Aid Questioned, Microfinance Praised

American television host Charlie Rose recently interviewed Dambisa Moyo of Cambridge University and Jacqueline Novogratz, founder and CEO of Acumen Fund. Ms Moyo argued that traditional aid to poor countries fosters a "culture of dependency and bureaucracy," whereas increased promotion of entrepreneurship could bring efficiency and sustainability. March 30 and March 31, 2009

### Gates Grants \$4.7m to Grameen Foundation for Health, Farm Data

US-based Grameen Foundation has received two grants totaling USD 4.7 million from the Bill & Melinda Gates Foundation to support technology initiatives aimed at improving healthcare delivery in Ghana and providing information services to poor rural farmers in Uganda. The Ghana effort will support the development of mobile applications such as one that will allow nurses to collect and transmit data using mobile phones. The Uganda grant will help build a network of individuals in rural communities who will use mobile phones to collect information about community needs, to disseminate agricultural information to farmers and to link them to markets. March 30, 2009

### IFC Cuts Peru Allocation But Increases Microfinance Funding

International Finance Corporation (IFC) has announced a new strategy of investment in Peru, where it will cut investments to USD 100 million in the 2009 fiscal year from 360 million in 2008. Instead of investing in big projects, IFC plans focus on companies that generate more jobs and reach the poorest sectors of the economy. This will include increased support of microfinance institutions. March 30, 2009

### Nigeria's Kaduna State Pushing Microfinance

In the Kaduna State of Nigeria, 18 community banks have recently converted to microfinance banks and 23 microfinance banks have been given approval to operate. The Central Bank of Nigeria (CBN) and Kaduna State have also arranged a deal whereby four banks will loan USD 5.4 million to local farmers. Of this amount, approximately USD 1.35 million will come from the state, an equal amount will come from the farmers and the CBN will guarantee 75 percent of the remainder, thereby limiting the banks' exposure to 12.5 percent of the total. March 30, 2009

### Informal Recyclers in Brazil Organize, Receive Microloans

In Brazil, "catadores" (informal recyclers) often sell material to middlemen rather than recycling depots - which pay higher prices - in order to get paid more quickly and to avoid having to accumulate and transport large quantities of material. To overcome this obstacle, catadores sometimes join cooperatives that handle storage and transportation to the depots, thus earning a higher rate. The Participatory Sustainable Waste Management project has been using donated funds to help cooperatives extend loans to the catadores, whose repayment schedules are tied to the oft-delayed payments from the depots. March 27, 2009

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## LATIN AMERICA - CARIBBEAN REGIONAL MICROCREDIT SUMMIT 2009

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We are pleased to announce that the **Microcredit Summit Campaign** has partnered with **Banca de las Oportunidades** to host the Summit.

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### **MIX, Social Performance Task Force Standardizing Indicators**

As part of ongoing efforts to standardize the measurement of social performance in microfinance, the Microfinance Information Exchange, in collaboration with the Social Performance Task Force, has sent a questionnaire to 1,300 microfinance institutions (MFIs). We at MicroCapital applaud this important effort and encourage MFIs to participate. March 27. 2009

### **Nigeria's Royal Exchange Gets Approval for Microfinance Bank**

Royal Exchange Plc, a Nigerian insurance company, has reportedly received approval from the Central Bank of Nigeria to operate a microfinance bank that is slated to begin operations in the next few months. As of March 25, 2009, Royal Exchange had a market capitalization of approximately USD 50 million. March 26. 2009

### **Islamic Microfinance Touted to Fight Poverty in Nigeria**

Economist Malam Ahmad Dogara recently argued before the Micro-Finance Investors Forum in Kano, Nigeria, that Islamic microfinance could be an excellent substitute for conventional microfinance, which has been rejected in some Muslim communities, principally for its non-compliance with Islamic law. Approximately 67 million Nigerians are Muslim. March 25. 2009

### **Kiva Plans to Raise Funds for US Microlenders**

Microfinance intermediary Kiva, which has routed USD 65 million from small investors to developing-world microfinance institutions, is closing in on deals to raise money for multiple unnamed microfinance partners in the US. Stateside entrepreneurs will be able to seek up to USD 10,000, considerably more than the USD 1,200 limit in developing countries. March 25. 2009

### **Prognosis Poor for Micro Health Insurance**

International business school INSEAD (Institut Européen D'Administration des Affaires) recently published an article exploring the sustainability of health microinsurance. The article argues that no model has yet emerged for unsubsidized health microinsurance. Mayte Oosterveld, Director of the PharmAccess Foundation, says that one of the difficulties is that the concept is unappealing to poor people, who often wonder why they would pay in advance for services they may never need from a clinic that may no longer be there when they need it. March 25. 2009

### **CGAP Reviews Local Microfinance Wholesale Facilities**

A recent CGAP (Consultative Group to Assist the Poor) study reveals that over USD 2 billion is channeled to microfinance each year through 47 (of at least 76 existing) local wholesale facilities, which are often called apex funds. These facilities are established in developing countries to pool national government and international donor money to provide loans or grants to microfinance institutions (MFIs). "In most cases, wholesale funds were originally designed as a temporary funding mechanism," says CGAP's Eric Duflos. "[P]roblems come when they use highly subsidized loans and compete with commercial sources of funding as the market matures. Those...are missing an opportunity to help take microfinance in their country to the next stage." March 24. 2009

### **Cranes to Design Software for India's L & T Finance**

Cranes Software International has won a contract from L & T Finance, a division of Indian conglomerate Larsen & Toubro, to implement its microfinance lending solution, Banker's Realm (BR.net). The web-based software will be implemented over the next three months at 20 branches of L & T Finance, which is active in agri-loans. Cranes has 350,000 users worldwide and counts among its customers Equitas Microfinance, Nirman Bharati, Indian Association for Savings and Credit and Rores Foundation. March 24. 2009

### **PlaNNet, Pfizer Study Microinsurance in China**

Pharmaceutical giant Pfizer and microfinance nonprofit PlanNet Finance have announced that they will collaborate on a study of the healthcare needs of low-income households in China. March 23. 2009

### **Nigeria Plans \$1.35b Agricultural Fund**

Tunde Lemo of the Central Bank of Nigeria recently announced the approval of plans to establish a fund that would disburse the equivalent of USD 1.35 billion through commercial banks to farmers at an interest rate of nine percent. March 23. 2009

### **IBD Sees Microfinance Up, Remittances Down in Latin America**

The Inter-American Development Bank (IDB) predicts 2009 will be the first year that remittances to Latin America and the Caribbean will decline after a decade of growth. During 2007, total remittances - which expatriates send home from abroad - to Latin America were estimated at USD 66.5 billion. As early as March 2008, the IDB reported that remittances to Brazil fell by four percent. March 23. 2009

### **Fitch Rates Uzbekistan Microcreditbank at B-**

Fitch Ratings has assigned a long-term issuer default rating of B minus, with a stable outlook, to government-controlled Microcreditbank of Uzbekistan, reflecting the likelihood of government support should the bank come under stress. The bank offers loans at rates from 5 to 14 percent and operates 79 full-services branches and 270 mini-banks that serve 60,000 borrowers and 170,000 savers. Microcreditbank reports a gross loan portfolio of USD 113.1 million. March 23. 2009 ♦♦♦



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## PIONEERS IN MICROFINANCE

*Stuart Rutherford founded SafeSave,  
a microfinance institution in  
Bangladesh.*



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### Stuart Rutherford

*MicroCapital: What in your upbringing or background sparked your passion for social finance?*

SR: Pure chance. In 1974 I happened to be in Nicaragua, working for a research outfit in Managua that was looking into the prospects for recovery from the devastating earthquake that had destroyed the city. At the time I was a trainee architect, and my job was to find out what happened to the housing of poor people during and after the earthquake. That took me into very low-income housing areas in a developing country for the first time in my life. In the course of finding out how people had coped in the earthquake, I listened to their accounts of how they managed their money. I started hearing about moneylenders and money guards and savings clubs. I suddenly realised that being poor sharpens, rather than reduces, your need for financial services, since with so little money in your pocket you need to save up or borrow in order to afford even small expenditures. Subsequently, as various jobs took me to other developing countries, I followed up on my hobby and began a "collection" of the types of money management services and devices that are used by the poor. As time went on I began to notice patterns that recur all around the world. All this was before modern microfinance got under way, so you can imagine how interested I was when, in 1983, I first heard about Grameen Bank and Village Banks and so on. I felt I was beginning to understand poor people's attitudes to money, and so I was very keen to find out what they would make of these new institutions that were beginning to work with them. I took a job with the UK NGO ActionAid that took me to Bangladesh in 1984, and from then on financial services for the poor - microfinance as it later came to be called - became an ever stronger interest.

*MC: What provided the initial linchpin for your microfinance work?*

SR: Grameen Bank turned me from being just an observer into wanting to become a practitioner and innovator in financial services for the poor. I can still remember the excitement I felt when I went for the first time to see a Grameen Bank meeting in central Bangladesh late in 1984. I went to see Muhammad Yunus and told him I wanted to modify his approach by placing a greater emphasis on saving, and I wanted to try it out in the dense slums of the capital, Dhaka. He was not optimistic but he was encouraging: he felt that the Grameen approach might not work in the more anonymous setting of the town, and he doubted the utility of savings, but he said I should try and see what happens. So in February 1985 I opened, for ActionAid, the first urban version of Grameen Bank and began to observe and write about what happened.

*MC: What hurdles - and what failures - did you face?*

SR: The main limitations were those of my own imagination and the failures those of my own making, especially not having the courage of my convictions. For example, my own studies of poor people's behaviour had already convinced me that savings was as important as credit in their strategies, and that microenterprise investment, important as it was for many poor people, was not the most pressing financial need for most of them, who need, above all, a way of transforming the tiny amounts that can be spared from small uncertain and unreliable incomes, into usefully large sums of money for the widest range of uses. But I failed to test these ideas in microfinance practice for more than a decade, and it was mid-1996 before I set up SafeSave, a provider of money-

management services (as opposed to just microcredit) to poor slum dwellers in Dhaka.

*MC: What do you consider your most important achievement?*

SR: The thing that gives me greatest satisfaction is having helped to draw the attention of the microfinance world to the importance of every day money-management services for poor people.

*If I were a youngster starting out, I would try to do enough reading to get my head around what is going on in microfinance and then tramp around a few slums and villages to see for myself how microfinance relates - or fails to relate - to the financial realities of life in poor communities.*

*MC: If you were starting out now, where would you begin?*

SR: If I were a youngster starting out, I would try to do enough reading to get my head around what is going on in microfinance and then tramp around a few slums and villages to see for myself how microfinance relates - or fails to relate - to the financial realities of life in poor communities. For myself, I would carry on as I am - trying to imagine better and better ways of helping poor people manage their money. Right now, for example, I'm working on a product that offers zero-interest loans to poor people willing to commit to saving a proportion of each loan. Poor people know that saving can be a better way of managing financial needs than borrowing, but they fail to save because of a lack of reliable partners and, above all, because of a lack of liquidity: somehow spending always seems to trump saving, no matter how well-intentioned you are. This trial product sets out to solve this problem in the most simple way: by providing liquidity at the very moment that the decision to save is made. We call this project "Product 9."

*MC: What do you see as the next challenge for the microfinance industry?*

SR: Right now, microfinance is in an exciting transition as fully-for-profit providers compete with or join forces with the nonprofits, which carried the microfinance flag for the first 30 years of its existence. This process has already proved disruptive and controversial - think of the debate about Mexican microlender Compartamos, for example - and will result in a restructuring of the industry in a way which cannot be precisely predicted. Once that is over, there will be a new surge of energy directed in new ways at old challenges: how to reach most poor people instead of a small minority of them, how to move beyond microenterprise credit to general-purpose money-management and risk-management services, how to improve transparency and how to reduce costs. ♦♦♦

*Grassroots Capital manages the Gray Ghost Microfinance Fund and the Global Microfinance Equity Fund.*

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The following organizations have supplied tremendous support to our efforts to maintain the candid coverage you have come to expect from us, your microfinance newspaper. Thank you for your readership!

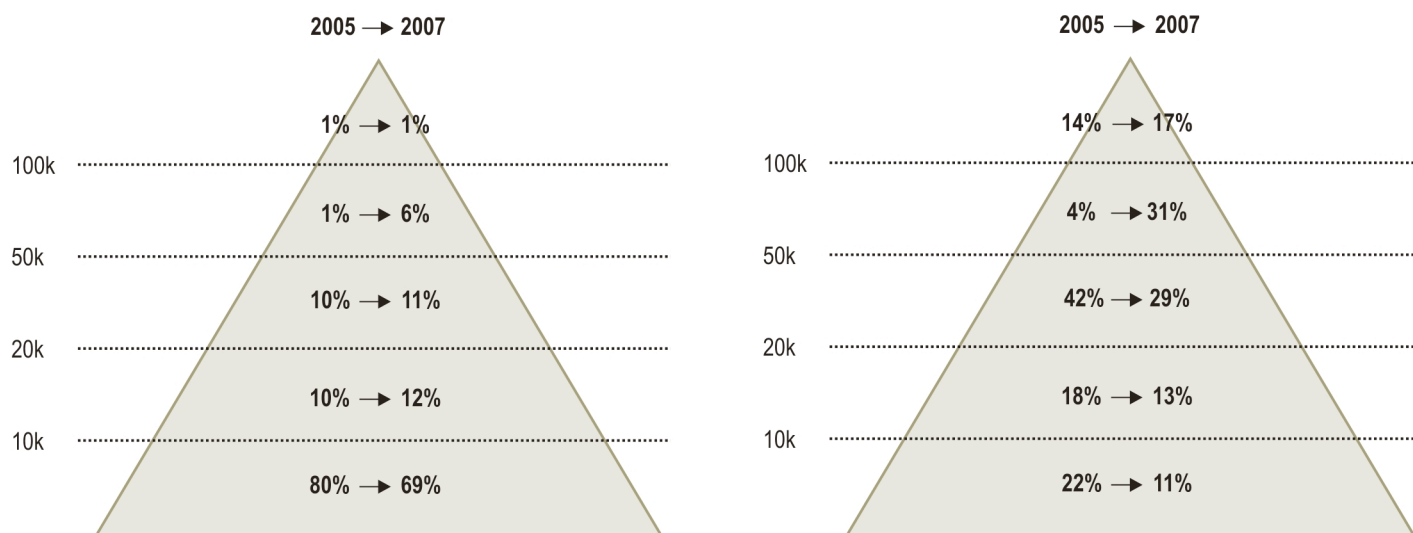


**MICROCAPITAL MARKET INDICATORS | EASTERN EUROPE AND CENTRAL ASIA**
**177 MFIs REPORTING FROM 23 COUNTRIES<sup>1</sup>**

Albania	Bosnia and Herzegovina	Georgia	Kosovo	Moldova	Poland	Serbia	Ukraine
Armenia	Bulgaria	Hungary	Kyrgyzstan	Mongolia	Romania	Tajikistan	Uzbekistan
Azerbaijan	Croatia	Kazakhstan	Macedonia	Montenegro	Russia	Turkey	

**TOP 10 MICROFINANCE INSTITUTIONS (MFIs) BY GROWTH IN GROSS LOAN PORTFOLIO: CHANGE IN USD**

MFI NAME	COUNTRY	AVERAGE ANNUAL USD INCREASE	AVERAGE ANNUAL % INCREASE	2005	2007
KMB Bank	Russia	446,723,248	76	426,797,600	1,320,244,096
ProCredit Bank Serbia - formerly MFB	Serbia	194,565,832	67	217,175,472	606,307,136
Khan Bank (Agricultural Bank of Mongolia LLP)	Mongolia	152,284,488	96	106,843,856	411,412,832
ProCredit Bank Kosovo - formerly MEB	Kosovo	129,118,384	51	199,943,840	458,180,608
ProCredit Bank Bulgaria	Bulgaria	124,302,984	39	263,181,136	511,787,104
ProCredit Bank Ukraine - formerly Microfinance Bank	Ukraine	108,366,992	50	172,447,008	389,180,992
ProCredit Bank Romania - formerly Miro Bank	Romania	104,865,344	73	105,006,720	314,737,408
ProCredit Bank Bosnia and Herzegovina	B&H	72,011,028	59	94,608,840	238,630,896
ACBA-Credit Agricole Bank CJSC	Armenia	67,159,272	94	48,472,352	182,790,896
Opportunity Bank Montenegro	Montenegro	54,284,620	95	38,583,272	147,152,512

**PERCENT OF MFIs IN MARKET BY SIZE (NUMBER OF ACTIVE BORROWERS) MARKET SHARE BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)**


(1) Denotes only MFIs that report data for 2005 - 2007 to MicroBanking Bulletin (MBB) or MIX Market.

Source: Microfinance Information Exchange, Inc., December 2008, based on MFIs reporting to MBB or MIX Market.



## UPCOMING EVENTS

### Women's World Banking 7th Annual Capital Markets Conference

April 30 - May 1, 2009, New York, New York, USA

This event will include panel discussions on the capital markets and a competition between select microfinance institutions. The conference fee is USD 500. For more details, visit <http://www.swwb.org/node/711> or contact Magaly Arboleda at [marboleda@swwb.org](mailto:marboleda@swwb.org) or +1 212 768 8513.

### Mobile Money Transfer (MMT) Africa Conference and Expo

May 5 - May 6, 2009, Johannesburg, South Africa

This event will cover topics such as money transfer as the first step toward a broader suite of mobile financial services, making mobile money work in areas with low literacy and getting cash in and out of the system. The base fee is USD 1699. Add-on events will be held on May 4 and May 7. For details, contact Paul Nickeas at +44 (0) 20 7067 1835 or [paul.nickeas@clarionevents.com](mailto:paul.nickeas@clarionevents.com) or visit <http://www.mobile-money-transfer.com/africa/>.

### Chicago Microfinance Conference

May 8, 2009, Chicago, Illinois, USA

Registration fees for this conference, subtitled "Navigating the Markets: Microfinance in the New Economy," begin at USD 45. More details may be found at <http://www.chicagomicrofinance.com/> or by emailing [chicagomicrofinance@gmail.com](mailto:chicagomicrofinance@gmail.com). No telephone number is offered.

### 2009 Pacific Northwest Microfinance Conference

May 8 - May 9, 2009, Seattle, Washington, USA

This event, hosted by Seattle Pacific University's School of Business & Economics, is targeted at microfinance professionals and educators. Registration fees are USD 40 before May, with limited student discounts available. Details are available from John Terrill at +1 206 281 2502 or [jterrill@spu.edu](mailto:jterrill@spu.edu) or at <http://spu.edu/DEPTS/SBE/se/microfinance/>.

### Global Microfinance Congress

May 18 - May 20, 2009, New York, New York, USA

This event will cover IPOs, exit strategies, case studies and the role of venture capital in microfinance. MicroCapital readers may use service code "SP2" to qualify for a discounted rate of USD 1095. More information is available via [CustomerService@AmericanConference.com](mailto:CustomerService@AmericanConference.com), +1 212 352 3220 or <http://microfinancecongress.com/>.

### Twelfth Annual MFC Conference of Microfinance Institutions

May 25 - May 27, 2009, Belgrade, Serbia

This event will cover topics such as client protection and weathering the recession. The payment of registration fees of USD 660 (USD 490 for MFC members) is requested by April 24, 2009. Details are available from Marcin Rataj at +48 22 622 34 65, [marcin@mfc.org.pl](mailto:marcin@mfc.org.pl) or at <http://www.mfc.org.pl/conference2009/>.

### Fourth Annual Underbanked Financial Services Forum

June 1 - June 3, 2009, Dallas, Texas, USA

The Center for Financial Services Innovation and SourceMedia present this event featuring 50 speakers from the banking, regulatory, nonprofit, credit union and private equity sectors. Registration fees range from USD 695 to USD 1495, but will increase May 1. More details are available via [abconferences@sourcemedia.com](mailto:abconferences@sourcemedia.com), +1 212 803 6093 or <http://www.sourcemediaconferences.com/CFSI09/reginfo.html>.

### First European Research Conference on Microfinance

June 2 - June 4, 2009, Brussels, Belgium

This event aims to provide researchers with an opportunity to present their work and exchange ideas. The registration fee is EUR 200 until April 30, with discounts available. For details, contact Petra Solli at [cermi@ulb.ac.be](mailto:cermi@ulb.ac.be) or +32 2 650 6601 or visit <http://microfinconf.eu/>.

### Latin America - Caribbean Regional Microcredit Summit

June 8 - June 10, 2009, Cartagena, Colombia

This is the latest of the Microcredit Summit Campaign's events for those working to assist poor people in reaching financial self-sufficiency. The fee to attend is USD 300, with discounts available for those attending from the Latin American region. Add-on field visits and courses are also available for an extra fee. Details are available via <http://www.regionalmicrocreditsummit2009.org/>, +1 202 637 9600 or [info@microcreditsummit.org](mailto:info@microcreditsummit.org).

### Developing Inclusive Financial Systems for the Poor:

#### How Funders Can Make a Difference

June 14 - June 18, 2009, Amman, Jordan

This course is primarily designed for microfinance project managers and investment officers who make funding decisions. Course tuition is USD 1,800 for the first three days or USD 2,100 for the full five days, with a discount of USD 100 for registrations prior to May 15. Details are available at <http://www.cgap.org/direct/training/training.php/> or from Barbara Gähwiler at [bgahwiler@worldbank.org](mailto:bgahwiler@worldbank.org) or +1 202 473 9594.

### Microfinance Principles

July 3 - July 5, 2009, Bad Homburg, Germany

### Microfinance Institution Management

July 5 - July 10, 2009, Bad Homburg, Germany

### Commercial Micro Banking

July 12 - July 17, 2009, Frankfurt am Main, Germany

The Micro Banking Summer Academy at the Frankfurt School of Finance & Management (Bankakademie) is hosting the above menu of training opportunities. The registration deadline is April 24. More details are available via Maria Johansson at [m.johansson@frankfurt-school.de](mailto:m.johansson@frankfurt-school.de), +49 69 154008 617 or [http://www.frankfurt-school.de/content/en/intern\\_advisory/summer\\_academies\\_2009/micro\\_banking\\_summer\\_academy\\_2009.html](http://www.frankfurt-school.de/content/en/intern_advisory/summer_academies_2009/micro_banking_summer_academy_2009.html).

### Microfinance: The Investment Opportunity

July 13 - July 14, 2009 in Washington, DC, USA

This event will cover topics including the role of intermediaries in a microfinance deal, ratings and investment strategies for pensions, foundations and endowments. The registration fee for the conference is USD 1795, with add-on workshops and group discounts available. More information is available via Erin Busch at [ebusch@frallc.com](mailto:ebusch@frallc.com) or +1 831 465 2294 or via <http://www.frallc.com/conference.aspx?ccode=B722>.

### Pacific Microfinance Week 2009

July 13 - July 17, 2009, Nadi, Fiji

The Microfinance Pasifika alliance is organizing this series of events to raise awareness of microfinance and encourage cooperation in the Pacific region. Registration is free of charge, but there is a deadline of April 30. Microfinance Pasifika network members may apply for a travel subsidy. Additional information is available via +679 3544305, [info@microfinance-pasifika.org](mailto:info@microfinance-pasifika.org) or <http://www.microfinance-pasifika.org/>.

### Asia Insurance Review Microinsurance Conference

July 22 - July 23, 2009, China

More details on this conference, including its location, are expected shortly. Requests for updates on the event may be made at [http://www.asiainsurancereview.com/pages/conference\\_details.asp?id=124/](http://www.asiainsurancereview.com/pages/conference_details.asp?id=124/). The contact person is May Low, who may be reached at +65 63723185 or [may@asiainsurancereview.com](mailto:may@asiainsurancereview.com). ♦♦♦

## PAPER WRAP-UPS

### Microfinance Meets the Market

*By Robert Cull, Asli Demirgüç-Kunt and Jonathan Morduch, published by the World Bank Development Research Group, May 2008, 40 pages, available at: [http://www-wds.worldbank.org/serole/WDSContentServer/WDSP/IB/2008/05/27/000158349\\_20080527095250/Rendered/PDF/wps4630.pdf](http://www-wds.worldbank.org/serole/WDSContentServer/WDSP/IB/2008/05/27/000158349_20080527095250/Rendered/PDF/wps4630.pdf)*

This paper explores the tensions and opportunities of the microfinance industry as it shifts (or does not shift) towards commercialization. It outlines the evolution of microfinance to its current state, exploring a series of questions that touch on issues of subsidy, profit and social impact.

The authors employ data from the Microfinance Information Exchange that covers 346 microfinance institutions (MFIs) that serve a combined 18 million active borrowers and hold gross assets of USD 25.3 billion. (All figures provided in the paper are in purchasing power parity-adjusted dollars.)

#### Question 1: Who are the lenders?

The paper focuses on three types of MFIs that make up the majority of the sample: nongovernmental organizations (NGOs), non-bank financial institutions (NBFIs) and microfinance banks. NGOs make up 45 percent of the sample group. NBFIs, which make up 30 percent of the group, include MFIs that have special government concessions allowing them to assume additional roles beyond providing credit, such as taking deposits. For-profit microfinance banks make up just 10 percent of the sample.

Although microfinance banks make up only 10 percent of the group, they account for over half of gross assets. NGOs account for 45 percent of the organizations, but have 21 percent of the assets. Of the USD 2.6 billion in subsidized funds, NGOs take a disproportionate share. NGOs generally reach a higher proportion of women, claiming 75 percent of total female borrowers. Banks claim 25 percent of the total borrowers, but only six percent of women borrowers. Despite the push toward commercialization, NGOs still maintain significant market share, although the authors expect this share to decline as private sector banks increase in size.

#### Question 2: How widespread is profitability?

Earning profit is not restricted to for-profit organizations. Most organizations in the sample with revenues exceeding cost have nonprofit status. The authors stress that, “the microfinance industry’s drive towards profitability does not necessarily imply a drive toward ‘commercialization.’”

57 percent of the MFIs studied are profitable. Profitable MFIs tend to be larger, serving 87 percent of total customers. 73 percent of banks are profitable, compared with 54 percent of NGOs. Profit-making NGOs perform more like subsidy-dependent NGOs than commercial banks in that they serve more borrowers overall, poorer households and more women.

Nonprofits have succeeded in becoming profitable largely from the support of social investors, which invested USD 4 billion in microfinance during 2007. Social investors, which include international financial institutions and mutual funds, usually expect minimal returns - effectively providing a subsidy equal to the difference between their returns and that which market sources would demand. (MIX has adjusted its data to account for this implicit subsidy.) For the industry to continue its rate of expansion, MFIs will need to maintain access to these subsidized funds, which are partly dependent on the ability of MFIs to prove their social value.

#### Question 3: Are loans in fact repaid at the high rates advertized?

The portfolio at risk over 30 days is a strong two to four percent for both group and individual lending.

#### Question 4: Who are the customers?

Banks lend in greater volume than NGOs. If loan size is taken as a proxy for poverty level of customers, microfinance banks serve customers who are better off than the customers of NGOs. Banks will thus have an easier time making profit assuming that the costs to extend loans (screening, monitoring and processing) are fixed. Although, “Debate persists on the extent to which a trade-off exists between pursuing profit and reaching the poorest customers.” The authors conclude that, “The data here suggests that this trade-off is very real.”

#### Question 5: Why are interest rates so high?

NGOs facing high costs often respond by raising interest rates. At the median, NGOs charge borrowers 25 percent interest per year, with the top quartile charging 37 percent or more. Microfinance banks, on the other hand, charge just over 13 percent interest at the median and 19+ percent for the top quartile. While scale does appear to be one route to cost reduction, economies of scale disappear over about 2000 customers. Above that level, cost reductions are often made by serving customers with larger loans and more services.

The larger the loans, the less money spent by the institution per dollar. Whereas the median microfinance bank spends 12 cents on operating costs per dollar loaned, the median NGO spends 26 cents.

#### Question 6: Are profits high enough to attract profit-maximizing investors?

The average return on equity for NGOs is 3 percent; for microfinance banks it is 10 percent. The data at the top end shows promise for attracting market-oriented investors, however evidence suggests that investors seeking to maximize profits would have little interest in most of the MFIs serving the poorer customers: “It is one thing to earn profits, and quite another to earn profits that are high enough to attract investors who have no concern with social missions.”

#### Question 7: How important are subsidies?

Subsidy per borrower is USD 233 for the median NGO in the sample group and reaches USD 659 for those at the seventy-fifth percentile. The median microfinance bank, on the other hand, receives no subsidy.

#### Question 8: How robust are the financial data?

The MIX data, as described earlier, has been adjusted to account for hidden subsidies, including those involved in socially motivated investments. This is a difficult adjustment to make, and the authors concede that it is open to error. They also stress that there is no way of adjusting for the fact that institutions would likely shift strategies to become more efficient if their access to subsidies were to dry up.

In conclusion, this paper indicates that the profile of microfinance banks is significantly different from that of nonprofit MFIs. NGOs tend to have higher operating costs than banks, and the authors pose the question of whether this is due to smaller average loan sizes driving up costs, to working with particularly hard-to-reach households or to subsidies breeding inefficiency.

The authors state that without data on social and economic benefits, the paper cannot add to the debate on whether subsidies to microfinance enhance social impact. The authors argue that, “Commercial investment is necessary to fund the continued expansion of microfinance, but institutions with strong social missions, many taking advantage of subsidies, remain best placed to reach and serve the poorest customers and some are doing so on a massive scale. The market is a powerful force, but it cannot fill all gaps.”

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## 2008 Microscope on the Microfinance Business Environment in Central America

*Published by the Economist Intelligence Unit, October 2008, 62 pages, available at: [http://a330.g.akamai.net/7/330/25828/20081014142739/graphics.eiu.com/marketing/microfinance/English\\_Microscope%202008.pdf](http://a330.g.akamai.net/7/330/25828/20081014142739/graphics.eiu.com/marketing/microfinance/English_Microscope%202008.pdf)*

NOTE: While this report outlines the business environment for microfinance across Latin America and the Caribbean, this summary is limited to Central America. Rankings are out of the full sampling of twenty countries.

Commissioned by the Inter-American Development Bank and the Corporación Andina de Fomento (CAF), this report covers three areas: regulatory framework, investment climate and institutional development. The indicator scores are aggregated to produce an overall score ranging from 0 to 100 (100 is the highest).

### El Salvador

El Salvador is ranked fourth out of twenty in Latin America and the Caribbean and is the highest ranked country in Central America with an overall score of 59.0. There are no legal or regulatory restrictions on establishing or operating NGOs. The market for microfinance institution (MFI) creation is competitive, with no provider dominating the current environment. Regulated and non-regulated institutions use separate private credit bureaus and serve the majority of the adult population.

### Nicaragua

Although Nicaragua ranks sixth with a score of 58, its investment climate is ranked in the bottom half of the index at 44.2.

The Banking Superintendence has been encouraging domestic banks to adopt US best-practice accounting rules regarding asset valuation/loan origination and provisioning. NGOs do not face significant roadblocks to forming MFIs. Another key strength is the country's wide range of MFI services.

Nicaragua's two largest regulated institutions, Banco Pro Credit Nicaragua and Financiera Nicaraguense de Desarrollo SA, are larger than the combined portfolio of all NGOs. The country is also considered to be among "the five most competitive microfinance markets in the LAC region."

On the negative side, the country scored poorly on its judicial system, due to limited property protection rights. Most importantly, its capital markets infrastructure is undeveloped, which increases borrowing costs for customers. The country has also experienced a significant number of bank collapses in the last few years.

### Guatemala

Guatemala ranks seventh, with a score of 54. Approximately 35 NGOs operate in the country, and those that only receive private capital are not subject to supervision by fiscal authorities. It takes no more than USD 650 to register as an NGO. Banks' specialized microfinance units and cooperatives/credit unions are the main regulated institutions engaged in microfinance. Regulated institutions require a capital adequacy ratio of 10 percent, which the authors consider reasonable.

G&T Continental has the largest market share, with Banco de Desarrollo Rural and Genesis EMP following.

The country has minimal regulatory and examination capacity with regards to general financial sector supervision and regulation. In addition, it is very difficult to convert NGO MFIs to regulated status.

### Mexico

Mexico ranks tenth with a score of 47.5. Mexico is moving towards international accounting standards, although standards still vary widely based on institution size and regulatory and juridical status. MFI networks are currently developing standardized accounting practices for MFIs.

On one hand, regulations for savings and credit entities (EACPs) have been adjusted to accommodate microfinance activities such as "the capacity to carry out personal visits to asset creditworthiness (and to consult a credit bureau)." However, the National Commission of Banks and Securities generally lacks sufficient specialized staff to create effective regulations and perform field visits to MFIs.

Commercial banks have shown minimal interest in "downscaling" into microfinance, partially due to strict prudential standards.

### Panama

Panama is ranked tenth, with its investment climate ranked third. A new banking law was enacted in August 2008 that, "considers micro and small enterprises to be banking clients if they receive credit for commercial purposes up to a total of 200,000 balboas [USD 200,000]." This allows banks to provide microloans.

Although public institutions do not compete unduly with private MFIs, a key challenge is a lack of thorough understanding of microcredit by regulators.

Only a few NGO MFIs exist in Panama due to difficulties in raising capital.

### Honduras

Honduras ranked twelfth with a score of 47.1. NGOs offer only microcredit, with limited insurance offerings. The main industry regulator is the National Commission for Banks and Insurance Companies.

Banks and finance companies are beginning to enter the microfinance industry as competition from state institutions is very limited.

Regulated MFIs such as the Financial Private Development Organization (OPDS) are non-bank financial institutions. Regulated institutions, unlike finance companies, face interest rate caps and cannot hold savings from the general public.

Non-regulated institutions have limited access to public funding and are mostly restricted to microcredit.

### Costa Rica

Costa Rica ranks fifteenth overall, with a score of 40.3. Its key strength stemmed from the robust economic expansion of 2006 and 2007. During those years, Costa Rica experienced strong growth in banking credit, which was perpetuated by the economic boom coupled with falling domestic interest rates.

Accounting standards and MFI transparency are solid. While non-regulated institutions do not face external audits or ratings, regulated institutions are required to attain both. A large majority of NGOs reporting to the Microfinance Information Exchange are not rated.

Regulatory and examination capacities could be improved. Also, commercial and consumer loans are mixed together in microfinance portfolios as, "Institutions are not required to monitor the final destination of borrowed resources."

## A Simple Poverty Scorecard for Vietnam

*By Shiyuan Chen and Mark Schreiner, March 2009, 160 pages, available at: [http://microfinance.com/English/Papers/Scoring\\_Poverty\\_Vietnam\\_EN.pdf](http://microfinance.com/English/Papers/Scoring_Poverty_Vietnam_EN.pdf)*

This study uses a 2006 Vietnamese Household Living Standards Survey to construct a scorecard that estimates the likelihood that a household has expenditures below a given poverty line. The scorecard uses ten indicators that field workers collect and verify. Poverty scores can be computed on paper in the field in ten minutes. The scorecard's accuracy and precision are reported for a range of poverty lines. The poverty scorecard can be used to monitor poverty rates, track changes in poverty rates over time and target services.

## Due Diligence Guidelines for the Review of Microcredit Loan Portfolios: A Tiered Approach

By Robert Peck Christen, published by CGAP (Consultative Group to Assist the Poor), July 2005, 39 pages, available at: [http://www.microfinancegateway.org/files/26200\\_file\\_26200.pdf](http://www.microfinancegateway.org/files/26200_file_26200.pdf)

The paper presents a due diligence tool for regulators, grantors and investors to evaluate the accuracy of a microfinance institution's (MFI) reported portfolio quality and the extent to which an MFI employs sound loan management practices. Investment in MFIs can be risky, and external audits often fail to accurately identify the primary risk facing investors - misrepresentation of portfolio quality - because they depend on the assumed veracity of an MFI's management information system. The author argues that MFIs suffer from three potentially fatal weaknesses: "[1] Basic governance of MFIs is weak.... Given that the profit motive is not predominant in most cases, boards of directors... may fail to act aggressively to rein in their managers. [2] Potential exists for rapid deterioration of portfolio quality.... Loan delinquency... can increase rapidly when management deteriorates. [3] Most microloans are unsecured.... Thus, when loan portfolio quality suffers substantially, MFIs face far

greater loan losses relative to the amounts outstanding than intermediaries that operate other types of portfolios secured with collateral."

The Loan Portfolio Review Tool is a three-tier due diligence process, with each tier digging progressively deeper into an MFI's lending policies, loan administration and credit-risk control procedures. The tool aims to verify: the accuracy of accounting and loan tracking systems; that policies exist for loan provisioning; that measures for recovering and writing off bad loans are in place; that measures are in place to prevent fraud; and that the MFI is not managing its loan portfolio in a risky manner.

Recommended for entities making small grants, a Tier I review takes about two days

and involves both a desk review and an onsite discussion with senior management covering the country's investment climate and the MFI's loan portfolio, methodology and management.

A Tier II evaluation involves up to five days of review at the branch level to assess whether what was presented at the head office is consistent with what is happening in the field. Tier II is recommended for those considering sizeable grants or investments in an MFI.

A Tier III evaluation takes up to four weeks onsite with a team of local auditors, plus two weeks of off-site analysis. Tier III aims to quantify asset quality through statistical sampling. It is recommended when MFIs are wishing to access capital market funding mechanisms. ♦♦♦

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