MICROCAPITAL BRIEFS  |  TOP STORIES

**Dutch PGGM Investing $60m in Grassroots Equity Fund**
PGGM, the fund manager of a major pension scheme in the Netherlands, has invested the first USD 31 million tranche of USD 60 million that will be directed to the Grassroots Capital Global Microfinance Equity Fund over the next three years. Alex van der Velden, head of responsible equity strategies at PGGM, was quoted as saying he expected annual returns in the region of 20 percent. The commitment is part of a microfinance investment program announced last year that is worth the equivalent of USD 284 million. The pension fund, Pensioenfonds Zorg en Welzijn, holds USD 105 billion. July 17, 2009

**Islamic Solidarity Fund to Loan $15m to Kyrgyzstan, Tajikistan**
The Islamic Solidarity Fund for Development (ISFD), an affiliate of the Islamic Development Bank, has reportedly approved microfinance projects in the Kyrgyz Republic and Tajikistan that are worth a total of USD 15 million. A ten-year concessory loan for USD 5 million will finance rural microenterprises through Kyrgyz partners. A ten-year USD 10 million loan will finance microenterprises in Tajikistan. Through 2008 the relatively new ISFD had collected pledges worth USD 2.61 billion toward a fundraising goal of USD 10 billion. July 31, 2009

**BRAC to Lead $15m Partnership in Sierra Leone and Liberia**
The Bangladesh Rural Advancement Committee (BRAC) will lead a USD 15 million effort in Sierra Leone and Liberia to provide microfinance, healthcare and agricultural support. The project is funded by the Soros Economic Development Fund, Open Society Initiative for West Africa, Omidyar Network and Humanity United. BRAC has opened twenty new microfinance branches since March 2009 in Sierra Leone and Liberia, and it aims to open twenty more by the end of the year. July 27, 2009

**Grama Vidiyal to Raise $21m in Non-convertible Debentures**
India’s *Business Standard* recently reported that non-banking finance company Grama Vidiyal Micro Finance is planning to sell the equivalent of USD 21 million in non-convertible debentures over the next quarter in order to expand its network of 154 branches to 215 branches. Grama Vidiyal reports a gross loan portfolio of USD 28 million. August 11, 2009
**MICROCAPITAL BRIEFS**

**IFC Helping Four Central Asian MFIs Accept Deposits**
The International Finance Corporation is assisting the following Central Asian microfinance institutions in transforming their corporate structures so they can offer services other than loans: IMON International of Tajikistan, Arvand of Tajikistan, Bai Tushum of Kyrgyzstan and Credagro of Azerbaijan. The effort is part of the Microfinance Transformation Support Project, which began in 2008 with support from the Dutch Ministry of Economic Affairs. August 12, 2009

**Aavishkaar CEO Vineet Rai Expects More Consolidation in India**
CEO Vineet Rai of Aavishkaar India Micro Venture Capital Fund, was recently quoted as saying that, “Consolidation would become necessary for MFIs [microfinance institutions] which are large in size...” Smaller MFIs work at the grass roots level and hold the key to engage the borrowers. Here, the big MFIs would prefer to take over the district and semi-urban MFIs to get access.” He further predicts that there will be inflows equivalent to USD 210 million from investors in the coming year and that new instruments such as non-convertible debentures or securities will be attractive if they can continue to deliver returns in the range of 20 to 30 percent. August 12, 2009

**Grants - Marketed As Loans - Nurture Businesses in Yemen**
In a recent interview with the *Yemen Times*, Abdulkarim Al-Eryani, Chairman of the National Microfinance Foundation, argued that small and microenterprises have demonstrated their ability to play an important role in the development process. Founded as an NGO in 2003, the Foundation has provided poor women 50,000 “loans” totaling the equivalent of USD 7.3 million. However, all “repayments” are entered into individual deposit accounts that become the property of the borrowers. August 11, 2009

**IFC Invests $5m in Poland’s FM Bank**
The International Finance Corporation, the private sector lending arm of the World Bank, has announced an investment of USD 5 million in FM Bank, a new spin-off from Polish microfinance institution Fundusz Mikro. Acting FM Bank President Henryk Pietraszkiewicz stated that the bank will focus on micro- and small entrepreneurs. With backing from the Abris private equity fund, FM Bank is expected to operate a network of 62 branches around Poland by the end of the year. As of August 2008, Fundusz Mikro reported total assets of USD 49 million, 52,000 clients, a capital-asset ratio of 33.19 percent and a debt-equity ratio of 2.01 percent. August 10, 2009

**Indian Private Equity Funds Turn to Microfinance**
Venture capital and private equity funds in India have become more interested in Indian microfinance institutions (MFIs), according to a report in *The Times of India*. This is largely due to good management structure and proven business scalability. During the quarter ending June 2009, 11 such deals occurred, totaling USD 178 million according to the website Financial Chronicle. August 7, 2009

**XacBank, Horus Launch Mobile Banking Service in Mongolia**
Mongolian microfinance institution XacBank and Horus Noomad Solutions have launched AMAR mobile banking services, which enables customers to use their mobile phones to make payments and to conduct other transactions through a network of agents and merchants. The service can be used with all four mobile operators in Mongolia. Horus Noomad Solutions is a venture of Horus Development Finance of France and Tenger Financial Group of Mongolia. Established in 1998, XacBank reports total assets of USD 163 million, a capital-asset ratio of 10.53 percent, a debt-equity ratio of 8.50 percent, return on assets of 1.86 percent and return on equity of 18.69 percent. August 7, 2009

**FMO Loans $5m to Belarusian Bank for Small Business**
The Netherlands Development Finance Company (FMO) has opened a five-year, USD 5 million credit line to the Belarusian Bank for Small Business (BBSB) for on-lending to microenterprises. Since its opening in October 2008, the BBSB has issued loans to 580 small businesses totaling about USD 6.6 million. Loan sizes range from USD 270 to USD 270,000 but most are under USD 14,000 with terms of up to one year. BBSB was founded in 2008 by FMO, the European Bank for Reconstruction and Development, International Finance Corporation, KfW Bankengruppe, Swedfund, Commerzbank and Shorebank/Shorecap. August 6, 2009

**State Bank of Pakistan Gives Tameer Microfinance Bank $1m**
The State Bank of Pakistan (SBP) has agreed to give Tameer Microfinance Bank the equivalent of USD 1 million to launch branchless banking operations and to build its institutional capacity. Tameer has been working with CGAP (Consultative Group for the Poor) since 2007 to improve its services in rural areas by implementing smart card and point-of-sale devices for branchless banking. The grant requires a minimum of 25 percent matching funds from Tameer, which reported 43,000 active borrowers, total deposits of USD 8.1 million and a gross loan portfolio of USD 11.5 million for 2008. August 5, 2009

**More Financial Services in Papua New Guinea?**
The Foundation for Development Cooperation, in conjunction with the Porgera Environmental Advisory Komite, is assessing business models to provide financial services in the highlands of Papua New Guinea. The aim of the project is to recommend financial service delivery models suitable to the area and to identify potential implementation partners. August 5, 2009

**Incofin Takes $750,000 Equity Stake in ACME of Haiti**
Incofin, a Belgian microfinance investment company, is investing USD 750,000 in the first equity increase of Haitian microfinance institution ACME, which serves 25,000 active clients and holds a portfolio of USD 10 million. Among ACME’s shareholders is FIE NGO, the founder of Bolivian microfinance institution FIE FFP. August 4, 2009

**Rwanda Creates $21m Microfinance Fund**
Rwanda’s *New Times* reports that the Rwanda Development Bank has opened a credit fund worth the equivalent of USD 21 million for microfinance institutions to use for on-lending and capacity building over the next five years. Chair Faustin Zihiga of the Association of Micro-finance Institutions in Rwanda (AMIR) expressed hope for success in “promoting innovations, transparency and attracting donors.” August 4, 2009

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Zoran Stanislevic and Uyen Tran
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MicroCapital would like to recognize the individuals at CGAP; the Microfinance Information Exchange and the Microfinance Gateway for their outstanding work disseminating information on microfinance. Thank you!
What Subprime Mortgage Securitizations Can Teach Microfinance
Deborah Burand, a consultant to CGAP (Consultative Group to Assist the Poor), recently posted two suggestions on the CGAP Microfinance Blog for avoiding trouble with microfinance securitizations: (1) Originating banks should retain at least 10 percent of the credit risk so they have an incentive to generate good quality loans, and (2) investors should ensure that lenders adhere to ethical lending practices to ensure asset quality. August 3, 2009

Commercial Banks in Fiji Fret Over Microfinance Mandate
The Fiji Times recently reported that commercial banks are concerned about the cost and technical challenges of providing microfinance services, as the Reserve Bank of Fiji is requiring them to do by January 2010. Reserve Bank Governor Sada Reddy expressed confidence, however, that commercial banks had sufficient models from other countries to use as examples and that they were making progress toward meeting the mandate. August 3, 2009

Advans Banque Congo is Launched
Advans SA, a venture capital company specializing in microfinance, has launched its fourth microfinance institution, Advans Banque Congo, in the Democratic Republic of the Congo. With share capital of USD 6.65 million, Advans Banque Congo is majority-held by Advans SA, with additional participation from International Finance Corporation, KfW Bankengruppe and the African Development Bank. Advans Banque Congo makes loans of USD 100 to USD 25,000 and offers foreign currency exchange and current and saving accounts in US dollars, euros and Congolese francs. Headquartered in Luxembourg, Advans SA was created in August 2005 with committed capital of EUR 17.1 million. Advans is managed by Horus Development Finance of France. August 3, 2009

Role Reversal? A Call for Cities to Get Countryside’s Services
Citing a survey of Jammu and Kashmir by India’s Directorate of Economics and Statistics, journalist Bilal Hussain has called for microfinance institutions (MFIs) to increase their focus on the urban poor in the Kashmir Valley. Mr Hussain argues that MFIs focus disproportionately on alleviating poverty in rural areas, considering the number of urbanites that could benefit from access to microcredit. Mr Hussain adds that politicians have diverted development funds to rural areas in an attempt to gain political leverage from the rural populations, thereby “sidelining” poor urban communities. July 31, 2009

Role Reversal? Wokai Routes Loans From US to China
The NBC News World Blog recently reported on microfinance intermediary Wokai, which provides funding and technical assistance to two microfinance institutions (MFIs) in China: Chifeng Zhaowuda Women’s Sustainable Development Association and the Association for Rural Development of Yilong County. The growth of microfinance in China has been facilitated by the government’s moves during 2006 to grant legal status to MFIs and to relax rural lending regulations. Based in Beijing, Wokai fundraises in San Francisco, Seattle and New York. Donations from the US that fund Wokai’s loans to poor people in China are of course just a drop in the bucket compared to the USD 1.5 trillion that China has so far lent to the US government. July 31, 2009

Press Release
Encuentro Centroamericano de Microfinanzas 2009
Co-hosted by ACCION International & Citi Foundation in collaboration with REDCAMIF
September 9 – 11, 2009
San Salvador, El Salvador
www.encuentromicrofinanzas.com

Join us on September 9-11 in San Salvador for a two-day conference on microfinance. The program will be tailored specifically to Central America, with useful, relevant and professional panels examining and discussing the challenges, trends and opportunities in the region.

“Responding to the Regional Financial Crisis: Practical Strategies for Managing Risk While Planning for Growth”

Conference topics include:
- Practical Experiences Responding to the Regional Financial Crisis
- Funding Microfinance in Central America
- Learning from Previous Financial Crises
- Reviewing and Managing Risks
- Consumer Protection in Microfinance
- Working with Regulators, Governments and Competitors
- Success Strategies for the Future

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4 microfinance institutions serving 25,000 clients
Credit life microinsurance for 85,000 microentrepreneurs
Direct equity investment in 23 very small businesses in France
16 microfinance institutions equipped with a leading Software Solution
More than 600 professionals trained

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IFC Makes $4m Equity Investment in Sogebank of Haiti
The International Finance Corporation is making an equity investment of USD 4 million in Sogebank of Haiti to finance micro-, small and medium-sized enterprises. Sogebank is a commercial bank with total assets of USD 750 million and a network of 42 branches. It holds a 28 percent market share of loans in Haiti and a 34 percent share of deposits. Sogebank was founded in 1986 by a group of Haitian businessmen who took over the operations of the former Royal Bank of Canada. July 31, 2009

Calling Regulation Experts: Please Help Shape Guidelines
A regional working group lead by the Association of Supervisors of Banks of the Americas, with the collaboration of International Consulting Consortium and the Multilateral Investment Fund of the Inter-American Development Fund, has developed draft “Guidelines of Principles for the Effective Regulation and Supervision of Microfinance Operations” based on a survey of regulators across the region. The group is now seeking feedback from experts in the supervision of microfinance and from representatives of investment funds and microbanks. July 30, 2009

Yunus Awarded Medal of Freedom
US President Barack Obama has awarded Dr Muhammad Yunus one of sixteen 2009 Presidential Medals of Freedom, the country’s highest civilian honor. July 30, 2009

Blue Financial Secures $10m Guarantee, Foresees Slower Growth
Blue Financial Services, a microfinance institution based in South Africa, plans to continue its expansion across Africa, according to a recent article on AllAfrica.com. Although growth will be slower than previously planned, Blue will be entering Ghana this year, its fifteenth country of operation. Blue also recently received a loan portfolio guarantee of USD 10 million from the US Agency for International Development, which will cover 50 percent of losses on covered loans to micro-, small and medium-sized enterprises over the next ten years. For the year ending February 2009, Blue reportedly earned USD 67.6 million in interest on advances of USD 140 million, which translates to a net interest margin of more than 35 percent - approximately 10 times the norm among South African banks. July 22 and July 29, 2009

Nigeria to Crackdown on Poor Governance, Some NPLs Hit 20%
According to a recent report on the Nigerian website Business Day Online, the Central Bank of Nigeria (CBN) has threatened to dismiss and prosecute senior officers and operators at microfinance institutions and primary mortgage banks who are found to have engaged in malpractice. The CBN argued that improper practices have led to a decline in loan asset quality, with non-performing loan ratios reaching as high as 20 percent at some institutions. An unnamed official at the CBN was quoted as saying: “About 46 microfinance banks have not rendered their returns for the past six months…. The law will soon catch up with those of you that are involved.” The alleged irregular conduct also includes falsification of statements of accounts and the issuance of improper loans to bank officials and their family members. July 28, 2009

This newspaper will be in the hands of the leaders of over 1,000 additional microfinance institutions starting this fall.
Compartamos’ Income Is Up; Customers Are “Recession-Proof”
Banco Compartamos, a Mexican microfinance bank, has announced its non-audited financial results for the quarter ending June 30, including a net income increase of 31 percent compared to the same period last year. Net profit was equivalent to USD 24.7 million, up from USD 18.8 million; total loan portfolio reached USD 508 million, up from USD 361 million; and non-performing loans rose to 2.26 percent from 1.38 percent. The Wall Street Journal cited analysis indicating the bank’s target market is largely “recession-proof,” but that it will continue to rely on bond issuances and banks credit lines to fund lending because collecting deposits would be too expensive through its small offices and loan agents. July 27, 2009

EFInA of Nigeria Receives $3.5m Gates Grant to Expand Savings
Enhancing Financial Innovation & Access recently received a USD 3.5 million grant from the Bill & Melinda Gates Foundation to establish savings and branchless banking services for people in Nigeria who earn less than USD 2 per day. July 27, 2009

Over-Indebtedness a Dark Cloud Overhead?
Grameen Foundation CEO Alex Counts recently commented - on the website Microfinance Focus - that borrower over-indebtedness and borrowing from multiple microlenders are becoming increasingly common in the microfinance industry. Referring to the “darker side of the microfinance institutions,” Mr Counts cautions that institutions must discourage loan officers and borrowers from pursuing short-term gains at the expense of long-term sustainability. July 23, 2009

Kyrgyz Microfinance Sector Growing Fast
Seyitbek Usmanov and Robert Genkin of MGN Capital recently argued on Business New Europe that the microfinance industry in the Kyrgyz Republic has been successful because of the early adoption of relevant regulation: the Law on Credit Unions (1999) and the Law on Microfinance Organizations (2002). Prior to these laws, microfinance was limited to temporary projects by international donor organizations. From two microfinance institutions in 1997, the industry has grown to 233 non-depository microlenders, with an aggregate portfolio worth 3.2 percent of GDP (USD 175 million) in 2008. In rural areas, the average interest rate is between 120 percent and 180 percent annually, which the authors partially attribute to a 2008 inflation rate of 22.5 percent. July 22, 2009

IFC Guarantees $5.9m Standard Chartered Loan to Faulu Kenya
Standard Chartered Bank of Kenya has partnered with the International Finance Corporation (IFC) to loan Faulu Kenya the equivalent of USD 5.9 million. IFC will provide a credit guarantee for 80 percent of the loan from Standard Chartered to Faulu Kenya. IFC and Standard Chartered will also provide advisory support to Faulu Kenya regarding its new deposit-taking services. For 2007, Faulu Kenya reported a gross loan portfolio of USD 27.4 million, 90,000 active borrowers, total assets of USD 46.9 million, return on assets of 2.29 percent and return on equity of 11.49 percent. July 21, 2009
Help Sought to Integrate Social Performance, Capacity Building
The Imp-Act Consortium is launching a project to help balance financial, social and environmental performance in microfinance. The Consortium is seeking collaboration from organizations and individuals experienced in the capacity building of microfinance institutions. The closing date for expressions of interest is August 30, July 21, 2009

Grameen-Jameel Pan-Arab Microfinance Appoints GM
Grameen-Jameel Pan-Arab Microfinance Limited has announced the appointment of Julia Assaad as its new General Manager, July 21, 2009

Compartamos Raises $37m Selling Three-Year Bonds
Banco Compartamos of Mexico has raised the equivalent of USD 37 million through the public issuance of local bank bonds with three-year terms at an interest rate 200 basis points above Mexico’s 91-day interbank equilibrium rate, July 20, 2009

State Bank of Pakistan Amends Guarantee Facility
The State Bank of Pakistan has reportedly introduced amended guidelines for its Microfinance Credit Guarantee Facility. Microbanks will be given two years after receiving a wholesale loan to formulate a microfinance lending policy, as long as funding under the facility does not exceed 20 percent of bank equity. It also clarified that guarantees are recognized for capital adequacy purposes as carrying zero risk. July 17, 2009
### Top July 2009 Microfinance Transactions

The CGAP Microfinance Dealbook publicizes microfinance capital market transactions in an effort to bring greater transparency to the industry. Additional deals and further details on the below transactions are listed at [http://www.microcapital.org/cgap-microfinance-dealbook](http://www.microcapital.org/cgap-microfinance-dealbook). Parties to microfinance transactions are also encouraged to submit their deals via this website.

<table>
<thead>
<tr>
<th>Investor</th>
<th>Investee</th>
<th>Region</th>
<th>Amount (USD)</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Offering</td>
<td>Compartamos</td>
<td>LAC</td>
<td>~37,600,000</td>
<td>Equity</td>
</tr>
<tr>
<td>PGGM</td>
<td>Grassroots Capital Global Microfinance Equity Fund</td>
<td>*</td>
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<td>Equity</td>
</tr>
<tr>
<td>Government of Sri Lanka</td>
<td>SANASA Development Bank, Bank of Ceylon and People's Bank</td>
<td>SA</td>
<td>~18,284,000</td>
<td>Debt</td>
</tr>
<tr>
<td>Soros Economic Development Fund, Open Society Initiative for West Africa, Omidyar Network &amp; Humanity United</td>
<td>BRAC</td>
<td>SSA</td>
<td>15,000,000</td>
<td>Equity</td>
</tr>
<tr>
<td>European Fund for Southeast Europe</td>
<td>Credins Bank</td>
<td>ECA</td>
<td>6,917,400**</td>
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<tr>
<td>Standard Chartered Bank</td>
<td>Faulu Kenya</td>
<td>SSA</td>
<td>~5,900,000</td>
<td>Debt</td>
</tr>
<tr>
<td>Hivos-Triodos Fund &amp; Triodos-Doen</td>
<td>Leapfrog Financial Inclusion Fund</td>
<td>*</td>
<td>5,000,000</td>
<td>Equity</td>
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<td>International Finance Corporation</td>
<td>Demir Kyrgyz International Bank</td>
<td>ECA</td>
<td>3,500,000**</td>
<td>Debt</td>
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<td>Vision Banco</td>
<td>LAC</td>
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<td>Demir Kyrgyz International Bank</td>
<td>ECA</td>
<td>2,800,000**</td>
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<td>Sogebank</td>
<td>LAC</td>
<td>2,800,000**</td>
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<td>LAC</td>
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<td>LAC</td>
<td>~1,500,000</td>
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<td>LAC</td>
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<td>Triodos-Doen &amp; Hivos-Triodos Fund</td>
<td>Small Enterprise Foundation</td>
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</tr>
</tbody>
</table>

**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, * - Investee location may not indicate the final destination of the funding because investee is an intermediary

**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.
Brian Cox

MicroCapital: What is the origin of your passion for microfinance?

BC: I spent ten years in the international division of the US Treasury as head of the Eurasia section, where we ran a microfinance program jointly with the European Bank for Reconstruction and Development. All our lending was in US dollars or euros, but our clients were lending in local currency. Since my main job was macroeconomic and currency policy, I was acutely aware of the currency risk problem but - at the time - there was no way to address it. So after leaving Treasury and deciding to devote myself fulltime to microfinance, I was very excited to discover the MFX project, which finally was doing something about the problem that had been so frustrating earlier in my career. So it feels like coming full circle.

MC: Please briefly describe your organization.

BC: MFX is an industry effort to address currency risk in microfinance, by improving understanding of the problem and introducing better tools to hedge currency risk. Our funders include about twenty microfinance investment vehicles (MIVs), foundations and networks. We act as a counterparty for microfinance lenders to hedge their currency and interest rate risks and we provide decision-support tools for microfinance institutions (MFIs) to help them analyze their risks and better plan their funding. We are a hybrid for-profit and nonprofit. We have to be for-profit to operate in the market, but we don’t seek to maximize profit. Our goal is to maximize access to hedging for the industry, while providing a reasonable return to our investors. So our social and commercial missions work in tandem.

MC: What products and services do you offer?

BC: We offer cross currency swaps, interest rate swaps and forward contracts. Down the line we may offer options and other more complex instruments. On the education side, we offer tools that allow MFIs to stress test their balance sheets under different economic scenarios to see the consequences of currency and interest rate mismatch. These tools are available free on our website.

MC: What is a hedge?

BC: A currency swap is a way to offset foreign exchange losses or gains that can occur when a lender’s assets are in a different currency than its liabilities. For example, if an MIV is dollar-funded but makes a local currency loan, it loses if the local currency depreciates and gains if it appreciates. The MIV can enter a swap contract with MFX that will pay the MIV in the event of a loss, but require it to pay in the event of a gain. The result is that, from a risk perspective, the MIV now has a dollar loan and its assets match it liabilities. We can do a similar contract with an MFI that wants to offset its currency risk from borrowing in hard currency.

MC: Why hasn’t currency hedging already become established in microfinance?

BC: Historically there have been two main reasons: lack of awareness and lack of access. Until a year ago, emerging market currencies generally had had eight or nine consecutive years of appreciation. Many MFIs had not been through a business cycle. Now that most have, there is a lot more awareness about the consequences of currency mismatch. The second problem is that commercial hedging is not well suited to microfinance. It is only available in liquid markets, not in the poorest countries where microfinance is most needed. It is geared to large contracts and so becomes very expensive at a smaller scale. Microfinance lenders also often don’t have strong credit positions, so banks either won’t deal with them or require large amounts of collateral.

MC: What allows you to perform hedges where others have not been able to do so?

BC: What allows MFX to offer hedging in exotic high risk currencies is our partnership with a new USD 600 million fund named TCX (The Currency Exchange Fund), which is backed by the Dutch development bank FMO. TCX is innovative because it operates fundamentally differently than a bank, which can only provide a swap when it can do the opposite transaction in the market to offset its risk. TCX takes a diversification approach to risk. By taking local currency positions in say 25 or 30 currencies, it brings the overall risk down as invariably some currencies will go up and some will go down. This means TCX can provide hedges in really any country with a measurable interest rate benchmark - whether or not there is a liquid swap market. MFX has access to this special resource as an investor in TCX. Also, we have a USD 20 million credit guarantee from the US government agency Overseas Private Investment Corporation that allows us to act as an AAA rated counterparty. Whereas a bank would either not trade or would charge an MFI a large premium, MFX can intermediate to secure much, much better rates.

I was very excited to discover the MFX project, which finally was doing something about the problem that had been so frustrating earlier in my career. So it feels like coming full circle.

MC: What is the projected scale of your operations?

BC: Our initial capitalization is USD 9 million, most of which we have invested in TCX. That gives us between USD 50 million and USD 80 million in hedging in exotic currency and additional amounts where we can use banks to cover our risk, so our total capability is about USD 100 million. We are actively moving to increase our capital because we know - even from the demand that we already have - that there is great appetite in the industry. We plan to raise our capital to about USD 20 million by early next year, which will give us about USD 200 million in hedging capacity.

MC: What effects do you foresee your work having on microfinance?

BC: Early on, we did a demand study that was striking. We talked to microfinance investors and asked where they would want to lend if they did not have to worry about local currency risk. More than half the demand was for Africa and also for higher risk areas in Asia. Compare that to the actual existing portfolio of microfinance, which is 80 percent Latin America and Eastern Europe, and you conclude that…

(Continued on page 12)
MICROCAPITAL MARKET INDICATORS | INDIA

52 MFIs REPORTING

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

<table>
<thead>
<tr>
<th>MFI NAME</th>
<th>AVERAGE ANNUAL USD INCREASE</th>
<th>AVERAGE ANNUAL % INCREASE</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKS Microfinance Private Limited</td>
<td>123,207,398</td>
<td>263</td>
<td>20,151,428</td>
<td>266,566,224</td>
</tr>
<tr>
<td>Spandana Sphoorty Financial Limited</td>
<td>57,163,170</td>
<td>67</td>
<td>63,010,716</td>
<td>177,337,056</td>
</tr>
<tr>
<td>Bandhan (Society and NBFC)</td>
<td>37,856,439</td>
<td>219</td>
<td>8,235,162</td>
<td>83,948,040</td>
</tr>
<tr>
<td>SHARE Microfin Limited.</td>
<td>36,614,456</td>
<td>37</td>
<td>81,264,240</td>
<td>154,493,152</td>
</tr>
<tr>
<td>Shri Kshetra Dharmasthala Rural Development Project</td>
<td>31,313,510</td>
<td>89</td>
<td>24,114,900</td>
<td>86,741,920</td>
</tr>
<tr>
<td>Asmitha Microfin Limited</td>
<td>22,835,492</td>
<td>46</td>
<td>39,465,512</td>
<td>85,136,496</td>
</tr>
<tr>
<td>Bhartiya Samruddhi Finance Limited</td>
<td>17,482,472</td>
<td>60</td>
<td>22,048,552</td>
<td>57,013,496</td>
</tr>
<tr>
<td>Cashpor Microcredit</td>
<td>12,907,763</td>
<td>82</td>
<td>11,074,699</td>
<td>36,890,224</td>
</tr>
<tr>
<td>Grama Vidiyal</td>
<td>11,801,574</td>
<td>128</td>
<td>5,612,873</td>
<td>29,216,020</td>
</tr>
<tr>
<td>Mahasemam-SMILE</td>
<td>10,969,951</td>
<td>189</td>
<td>2,979,870</td>
<td>24,919,772</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Size</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>100k</td>
<td>21%</td>
<td>42%</td>
</tr>
<tr>
<td>50k</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>20k</td>
<td>15%</td>
<td>27%</td>
</tr>
<tr>
<td>10k</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>10k</td>
<td>33%</td>
<td>6%</td>
</tr>
</tbody>
</table>

MARKET SHARE BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)

<table>
<thead>
<tr>
<th>Size</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>100k</td>
<td>80%</td>
<td>91%</td>
</tr>
<tr>
<td>50k</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>20k</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>10k</td>
<td>4%</td>
<td>1%</td>
</tr>
</tbody>
</table>

(1) Denotes only MFIs that report data for 2005 - 2007 to MicroBanking Bulletin (MBB) or MIX Market.
Source: Microfinance Information Exchange, Inc., August 2009, based on MFIs reporting to MBB or MIX Market.

This report available by SUBSCRIPTION ONLY: Support this emerging industry by subscribing and advertising via www.MicroCapital.org
UPCOMING EVENTS

International Microfinance Conference on Africa
September 2 - September 3, 2009, Johannesburg
This conference will highlight microfinance innovations in developed countries that have applications to reducing poverty in Africa. Standard pricing is USD 490 with an NGO rate of USD 245 and discounts for registrations completed by August 14. More details are available from Kamreya Clark at +27 21 689 7881 or kamreyac@omegainvest.co.za or via http://www.omegainvest.co.za.

Encuentro Centroamericano de Microfinanzas
September 9 - September 11, 2009, San Salvador, El Salvador
This conference will focus on strategies for managing risk while planning for growth. Registration costs USD 150, and more details are available via http://www.accion.org/Page.aspx?pid=1647, conference@accion.org or +1 617 625 7080.

Microfinance for Institutional Investors
September 21 - September 23, 2009, Vienna, Virginia, USA
This event will cover innovative microfinance investments, emerging opportunities and exit strategies. Pricing for institutional investors is USD 1,099, with discounts available for nonprofits and early registration. Add-on workshops are also offered. More information is available at http://www.hansonwade.com/events/microfinance-for-institutional-investors/, info@hansonwade.com or +1 212 537 5898.

Clinton Global Initiative - Fifth Annual Meeting
September 22 - September 25, 2009, New York, USA
The Clinton Global Initiative is introducing four new action areas this year, including the Financing a Sustainable Future program, under which participants will make commitments to impact investing in micro-, small and medium-sized enterprises and microinsurance. Attendance at this major event is by invitation only.

Global Youth Enterprise Conference
September 29 - September 30, 2009, Washington, DC, USA
This conference is structured around project design and implementation; policy and advocacy; monitoring and evaluation; partnerships; and crosscutting. The early registration fee is USD 475, but prices rise by USD 100 after August 14. Details are available from Whitney Harrelson at whitney@makingcents.com, +1 202 783 4090 or via http://youtheuerpriseconference.org/.

XII FOROMIC 2009: Inter-American Forum on Microenterprise
September 30 - October 2, 2009, Arequipa, Peru
This event - sponsored by the Multilateral Investment Fund - will offer the exchange of best practices, methodologies and strategies to promote and support the microenterprise sector. The fee to attend is USD 450 through August 31, with a selection of add-on trainings available on September 29 for USD 250. More details are available via http://www.iadb.org/mif/foromic, foromic@iadb.org or +1 202 623 1000.

Second Annual Microfinance Investment Summit
October 6 - October 7, 2009, London, UK
This event, sponsored by Incofin of Belgium, aims to unite a wide variety of microfinance stakeholders: institutional and private investors, the donor community, microfinance institutions (MFIs) and industry experts. The cost to attend is the equivalent of USD 2,100 dollars plus VAT, with discounts available for staff of MFIs, microfinance investment vehicles and fund management companies. Add-on workshops are available for USD 600. More details are available via enquiries@c5-online.com, +44 (0) 20 7878 6886 or http://www.c5-online.com/microfinance.htm.

2009 International Forum on Remittances
October 22 - October 23, 2009, Tunis, Tunisia
This biennial event organized by the UN International Fund for Agricultural Development focuses on remittances to and within Africa. More information and free registration are available via http://www.ifad.org/events/remittances/index.htm#3, remittances@ifad.org or +39 0654591.

Mobile Money Transfer Conference and Expo
October 26 - October 27, 2009, Dubai, United Arab Emirates
This event will include how to structure complex relationships - sharing brands, customers, data and revenues for the benefit of all parties. Registration costs GBP 1,299 with add-on workshops and discounts available for early registration and multiple attendees from one organization. Details are available via Steven Clarke at +44 (0) 20 7067 1831, mmt@clarionevents.com or http://www.mobile-money-transfer.com/global-summit/.

Microfinance India Summit 2009
October 26 - October 28, 2009, New Delhi, India
This conference will address the trade-offs and points of convergence that arise as the microfinance sector balances financial and social performance. The standard price is USD 620 for attendees from international organizations and USD 175 for Indian attendees, with discounts for students, ACCESS Microfinance Alliance members and registrations completed by August 31. Details are available via http://www.microfinanceindia.org/, +91 11 2651 0915 or microfinanceindia@accessdev.org.

Fifth International Microinsurance Conference
November 3 - November 5, 2009, Dakar, Senegal
This conference will focus on providing health insurance to the poor, linking microfinance and microinsurance and an analysis of microinsurance markets. Fees range up to EUR 690, with significant discounts available for public sector and nonprofit entities as well as for early registrations. For additional information, contact Dirk Reinhard via +49 89 3981 8888, info@munichre-foundation.org or http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2009Microinsurance/default.htm.

Triple Bottom Line Investing Conference - Europe 2009
November 12 - November 13, 2009, Amsterdam, Netherlands
This event will cover sustainable development and environmental, social and governance investing in Europe and Asia. Attendance costs EUR 745 for one day or EUR 1,245 for two days. More information is available via Frank Stevens at europe2009@tbli.org, +31 (0) 20 428 6752 or http://tbliconference.com/.

Eighth Africa Microfinance Network Annual Conference
November 16 - November 20, 2009, Dakar, Senegal
This event will focus on strategies to boost economic growth in Africa by building strong and inclusive rural finance systems. The registration fee is USD 300. More details are available from Davy Serge Azakpame at davy.serge@afminetwork.org, +229 21 30 74 41 or http://www.afminetwork.org/events_8th-annual-conference-and-general-assembly_3.html.

European Microfinance Week
November 24 - November 28, 2009, Luxembourg
The theme for this meeting of the European Microfinance Platform is “Microfinance in a new financial era.” It will examine how the sector has reacted to the global financial crisis. Pricing and other details will become available shortly, at http://www.e-mfp.eu/microfinance-week or may be requested via contact@e-mfp.eu or +352 26 27 13 55.
MEET THE BOSS (Continued from page 9)

Brian Cox

…currency risk is a big barrier to lending into these higher risk markets, and therefore a significant factor in where microfinance lending goes. So, the big insight was that if we can make hedging available in these higher risk markets, particularly Africa, then we can change the pattern of lending. This discovery really got people excited about our project.

MC: What trends do you think particularly important in microfinance?
BC: We see ourselves as a bridge to what ultimately needs to be the microfinance funding model: local market funding from local deposits. We think we can help the industry move towards that model. Also, I foresee microfinance funding itself on a floating instead of a fixed rate basis, which is more appropriate to the microfinance asset base. This will reduce the cost of funding and mean a better match of assets and liabilities.

MC: How did you attract so many MIVs as investors?
BC: We can offer MIVs an assured allocation of hedging capacity so they can develop a local currency product that they can go out and market. They know they will be able to hedge when it comes time to sell their loan. We can lock in hedging capacity for MIVs as well as provide a reasonable return on their investment.

PAPER WRAP-UPS

Microfinance: Where Do We Stand Today?

As booming local economies increased the growth of savings deposits prior to 2008, MFI (whose legal structure permitted savings mobilization) grew their portfolios and client bases in some cases by 50 to 100 percent year on year. The authors note that while this meant greater access of financial services to poor clients, not all of the MFIs' rapid growth was so positive. Some MFIs that sought to take advantage of the commercial funds that were readily available moved into small and medium-sized enterprise lending (i.e., away from their traditional areas of strength). This was done in an effort to attract more clients and to cover rising the financial and operational costs of expansion.

The authors also cite a recent Women's World Banking report that found that as MFIs converted from NGOs into commercial entities: (1) the average loan size began to grow and (2) the number of women served went down, resulting in a drift of mission. The brief also notes that as MFIs have grown in certain markets, fierce competition among MFIs has arisen, sometimes leading to over-indebtedness of the borrower.

With regards to investor's appetite, Deutsche Bank had been in the process of structuring a USD 350 million global microfinance fund during the third quarter of 2008. However, the widening of credit default spreads and the freeze-up of structured credit products (the CDO market) put the investment bank's plans on hold at the time. According to the authors, with fewer funds available to put to work in alternative investments (such as microfinance), investors are now focusing their attention to the risks involved in microfinance investments.

Investors are carefully selecting targeted countries and MFI profiles with vigilance focusing on portfolio quality, liquidity risk, open FX risk, internal controls and a double bottom line objective. With regards to asset quality, the brief notes that portfolio delinquencies - portfolio at risk (PAR) > 30 days and PAR > 90 days - have increased over the last two years. PAR > 30 has risen from 1.8 percent to 3.8 percent.

Since the global credit crisis, MFIs are responding to falling portfolio quality and uncertain future funding by shrinking disbursed loan sizes, tightening lending standards and increasing cash on hand.
The Microfinance Industry Report:
Sri Lanka

This microfinance industry report on Sri Lanka gives an overview of the country and provides the most recent information available regarding the financial sector, regulators, microfinance activities, microfinance providers, access to financial services, government policy and donor support for microfinance.

As of 2007, the total population of Sri Lanka is 20 million with an annual growth rate of 1.10 percent. 15.2 percent of the population is below the poverty line (Poverty Head Count Index), and GNP per capita is USD 1,599 with a 7.1 percent growth rate.

Sri Lanka’s 23 commercial banks dominate the financial system in the country. A substantial amount of foreign aid was channeled to the microfinance sector following the tsunami that struck in 2004. The report notes that while many donors have worked through established microfinance institutions, some funded the establishment of multi-sectored livelihood programs that included microfinance components. Unfortunately, these were largely unsustainable in the long-term and had some detrimental effects on the sector in the short-term. Their mix of grants and subsidized loans was damaging to the previously established credit culture. However, microfinance institution BRAC of Bangladesh managed to rapidly scale up to become a major player among nonprofit microlenders. BRAC has achieved an outreach of 75,000 microfinance clients in four years.

Sri Lanka lacks a cohesive regulatory and supervisory system for the microfinance sector. The report views this as one of the barriers to future growth. Also, with donors leaving the microfinance sector in Sri Lanka, funding becomes a challenge, especially for nonprofits that are restricted by law from accepting public deposits. They are also restricted from obtaining offshore debt and equity funding due to prevailing exchange control restrictions. Local funding is difficult to access, as local banks and other funding agencies are still reluctant to lend to or invest in the microfinance sector (due to perceived high risk).

The distribution of microfinance outlets in Sri Lanka is heavily concentrated in rural areas. Almost 90 percent of the 7,141 outlets are located in rural areas. Annual interest rates on loans in Sri Lanka range roughly from 6 percent to as high as 36 percent charged by some nonprofit lenders. Loans are given for periods ranging from one month to as high as five years, which is usually reserved for housing loans.

Impact Assessments in Finance and Private Sector Development

The author explores the proposition that finance and private sector development can benefit from impact evaluations. Impact evaluations can assess the efficacy of a program or policy by comparing it against a counterfactual of what would have happened without the program or policy. He argues that this is one of the most important tools that can be used along with economic theory for understanding “what works”.

The author encourages the use of impact evaluations by examining the feasibility of such impact evaluations and analyzes the lessons of these evaluations for policymakers and practitioners. He uses examples from randomized experiments, which he argues offer many advantages for evaluation. For instance, they ensure that the only reason that firms, consumers or other units are subject or not subject to a policy or program is pure chance. Moreover, the results are easy to communicate to policymakers. He highlights policy and implementation lessons from four areas where impact evaluations are emerging:

- Microenterprise,
- Microfinance,
- Rainfall insurance and
- Regulatory reform.

Microenterprise: A central question for policymakers is how to raise the income of poor businesses and whether the typical microenterprises owned by the poor have any ability to grow. He provides examples of randomized experiments that test the efficacy of grants, yet does not provide any treatments on loans. The experiments show that grants work to raise income for the average microenterprise owner. However, even though grants may be effective, they are only effective for male business owners, not women. It also shows that one-time grants may help raise the income of male business owners, but does not necessarily lead to employment creation.

Microfinance: Second, the author assesses the microfinance sector and questions the archetypical model of microfinance as the best way to expand access to finance to the poor and to improve the small business sector. The author mentions that the most famous example of microfinance is the Grameen Bank and that the model most strongly associated with it is group lending to women at low interest rates. He cites the high ratio of loans to women and the reliance on group liability as possible vulnerabilities. First he suggests, as evidenced in his samples, that more credit products tailored to the urban male should be developed. Second, based on randomized tests, group liability does not necessarily mitigate moral hazard, but it could end up being more costly to the group. Also, the notion that loans should have lower interest rates is challenged.

Rainfall insurance: The reluctance of poor people in rural areas to accept loans is often because of the lack of insurance in economies where there are frequent rainfall variations. Studies indicate, however, that potential clients do not take credit even if there is an available insurance program because of the price and the fact that they are unfamiliar with the insurance program and provider. These issues should be addressed in moving forward with microinsurance.

Regulatory reform: As espoused by the author, impact evaluations can also be used to evaluate regulatory reform. He argues that burdensome regulations are an important barrier to private sector development. He evaluates regulatory reform in business registration in a few countries, including Peru and Mexico. He suggests it is important to know the effect of these reforms on the economic outcomes related to employment generation, consumer welfare and economic growth.

Finally, the author explores where we should go from here. First, he proposes that there should be more evaluations in the areas previously discussed. Second, he recommends that we look at the effects of other programs and policies that are widely used to benefit large numbers of consumers and firms. These include financial literacy and consumer protection, business training, and policies to enhance the small and medium-sized enterprise sector.
The Impact of Inflation on Microfinance Clients and Its Implications for Microfinance


This report, commissioned by the Pakistan Microfinance Network, assesses the impact of rising inflation on microfinance clients in Pakistan.

With an annual inflation rate of 9 percent in fiscal years 2007 and 2008, Pakistan had seldom had serious inflation issues. However, a dramatic rise to 28 percent occurred during fiscal 2009. (It has dropped again since.) According to the report, food and fuel prices appear to have driven the price spike.

The following findings are based on discussions with 245 microfinance clients from a wide range of backgrounds (23 percent of which were men). Nine institutions were selected in three provinces and 12 focus groups were held.

Irrespective of gender, location, type of activity or amount and purpose of the loan, inflation was deemed as “not a problem.” The majority of those interviewed felt that inflation was highly beneficial to them and to their economic activity. Many clients felt that it was easy to pass on higher costs to their customers. In fact, certain clients confessed that they were raising prices for their customers faster than their own costs were rising, hence “causing” inflation. It is important to note that inflation for borrowers has been a relatively recent phenomenon, taking place after they had made use of their loan. Urban clients (those who had shops or small outlets) who had taken loans to buy goods in bulk were able to pass on price increases or increase the prices of goods that they had purchased before the supplier price increases.

A common response across Pakistan regarding their lack of concern about inflation was that they were using their loans for productive purposes rather than consumption needs (hence they would be able to recoup their investment.) Not one client complained that they were unable to repay their installments. Most importantly, clients’ explanations regarding how they managed to make profits, were as follows:

• Clients included more members from their household in their economic activity if they could.
• Many clients said that there were also more earners in their family; thus, helping them through tough times.
• Most clients also stated that they were no longer able to maintain savings.

Agricultural producers and rural dwellers (the latter representing the majority of clients in Pakistan’s microfinance sector) were the greatest beneficiaries of inflation. According to these clients, the lump sum loan amount had allowed them to purchase inputs for their land in bulk months ago (hence cheaply). They are now enjoying the added benefit of higher support prices for key food crops.

The authors conclude that, while inflation has not had a damaging effect on microfinance clients in the first nine months of 2008, (when it touched 25 percent), it is very likely that it will in the future if inflation returns. If that occurs, microfinance providers may raise their credit ceilings (keeping in mind the real value of the loan) and stretch out loan installments.

Elevated Food Prices – Impact on Microfinance Clients


Food prices in developing countries remain elevated (above international market prices) and continue to negatively impact microfinance clients. Increasing food prices have the greatest effect on the poor populations that spend between 70 and 80 percent of their household income on food.

While global food prices have somewhat retreated from their mid-2009 highs, the report notes that data from the United Nations Food and Agriculture Organization (FAO) indicate that this has not trickled down to the retail level. It references that the price of rice (the principal source of food in most developing countries) remains significantly higher in most developing countries when compared to December 2006. The Grameen Foundation utilized data from the FAO that looked at the retail prices of rice in ten countries during 2007 and 2008. The authors took quarterly data and indexed it against the first quarter of 2007. The findings were as follows:

• Clients stated repeatedly that they were working much harder that they had in the past.
• Clients included more members from their household in their economic activity if they could.
• Many clients said that there were also more earners in their family; thus, helping them through tough times.
• Most clients also stated that they were no longer able to maintain savings.

The 50 percent price increase in rice has forced families (who previously spent up to 85 percent of their income on food) to cut less and consider ways to increase their income. The report also notes the role that bartering has played, with agricultural laborers receiving 5 kg of grain per day instead of cash. According to the report’s references to the Financial Times, the disconnect between international market prices and retail prices in developing countries is due to time lags, poor harvests and lack of trade finance. There is also the possibility of excess profiteering by wholesalers. The FAO predicts that the total grain end stocks will reach a 25-year low by the end of crop year 2009.

The change in food consumption has also impacted microfinance borrowers. According to Grameen Foundation’s discussions with microfinance institutions (MFIs), clients have cut down on food consumption for certain food groups (such as meat, from once a week to once a month). In addition, MFIs have started reporting a decrease in the voluntary savings rate. MFIs in the Philippines and Nigeria note that some mature clients are withdrawing their savings to finance their working capital needs. Not only does this reduce savings as a funding source for MFIs, but it also reduces the safety net that clients may use to weather any additional price increases.

Several MFI leaders have noted that they expect to see an uptick in portfolio at risk if food prices remain elevated. Finally, the report notes that, while inflation naturally drives up wages and salaries, MFIs will have to find alternatives to absorb the increase in prices or possibly face the unaccustomed option of raising interest rates to end borrowers. A prolonged period of elevated food prices will have a significant impact on microfinance clientele; however, it is still too early to measure.

Index of Retail Prices of Rice by Quarter

<table>
<thead>
<tr>
<th>1Q 2007: Bangladesh (100)</th>
<th>Brazil (100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt (100)</td>
<td>India (100)</td>
</tr>
<tr>
<td>Mozambique (100)</td>
<td>Pakistan (100)</td>
</tr>
<tr>
<td>Peru (100)</td>
<td>Philippines (100)</td>
</tr>
<tr>
<td>Senegal (100)</td>
<td>Vietnam (100)</td>
</tr>
<tr>
<td>1Q 2008: Bangladesh (160)</td>
<td>Brazil (107)</td>
</tr>
<tr>
<td>Egypt (153)</td>
<td>India (120)</td>
</tr>
<tr>
<td>Mozambique (123)</td>
<td>Pakistan (174)</td>
</tr>
<tr>
<td>Peru (116)</td>
<td>Philippines (136)</td>
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<td>Senegal (120)</td>
<td>Vietnam (124)</td>
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<td>4Q 2008: Bangladesh (124)</td>
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<td>Philippines (NA)</td>
</tr>
<tr>
<td>Senegal (180)</td>
<td>Vietnam (151)</td>
</tr>
</tbody>
</table>
From Access to Impact: Microcredit and Rural Livelihoods in Afghanistan

By Paula Kantor, published by the Afghanistan Research and Evaluation Unit, June 2009, 74 pages, available at: http://www.microfinancegateway.org/p/site/m/template/rc/1.9.36446/

This report presents the Afghanistan Research and Evaluation Unit’s (AREU) findings on the impact that microcredit has had on existing informal credit systems and rural livelihoods. It covers the development of microfinance in Afghanistan from subsidized government programs to the Microfinance Investment Support Facility for Afghanistan (MISFA) in 2003. Since 2003, over USD 569 million in microloans has been disbursed to 440,000 clients through partners of MISFA.

The findings suggest that MFIs do not consider access to existing informal credit markets when entering a village and offering products. Furthermore, the data from village household studies indicates that there is no lack of access to credit, as informal credit systems exist in all villages. Furthermore, informal credit is usually available without interest and with flexible repayment terms. However some households prefer formal credit because informal lenders may request the full loan payment at any time. Most households access both informal and formal credit, and informal credit is sometimes used to repay microcredit loans.

Microcredit can play a significant role in improving rural livelihoods in three ways: supporting shopkeepers to stock their shops; weakening possible exploitative informal credit relations between agricultural input suppliers and farmers; and offering alternatives to informal credit.

Finally, six recommendations are made:

• Make microfinance one part of an integrated rural development approach;
• Develop a dual approach to delivering microfinance in Afghanistan, incorporating both commercial and risk reduction aims;
• Expand microfinance to address risk reduction as well as income growth;
• Expand performance monitoring to include indicators of client viability;
• Learn from informal credit systems and Understand how clients use credit to build or maintain relationships to avoid unintended consequences

Before the Crisis: A Look at MFI Trends in 2005-2007


This analysis highlights several key trends that microfinance institutions (MFIs) experienced from 2003 to 2007. The publication of the Microfinance Information Exchange’s (MIX’s) Trend Lines 2005 - 2007 MFI Benchmarks provide a quantitative perspective on the operational and financial performance of MFIs for that period. The overview of benchmark data for this report covers 487 MFIs (representing 78 countries, 82 percent of outstanding microfinance loans and 75 percent of microborrowers at the end of 2007). The analysis also draws on a new data set of funding liabilities for MFIs as of 2007 and provides a framework of the changes in MFIs leading up to the financial crisis. Major findings include the following:

• Borrower outreach grew at a rate of 26 percent across all regions. Loan portfolio grew faster, at 47 percent in USD terms during 2007.
• Loan portfolios for MFIs in Eastern Europe and Central Asia grew at a rate of 38 percent.
• Middle East and North Africa expanded credit outreach the quickest at 41 percent.
• Asia added 12 million borrowers.
• The median MFI worldwide accessed commercial funding (deposits or commercially priced loans) to fund more than half its loan portfolio by the end of 2007.
• MFI profits have flattened in recent years, relative to their asset bases (small gains have been offset by rising funding costs as MFIs shift more funding to commercial sources).
• Debt financing enabled sustained growth in borrower outreach and rapid growth in outstanding portfolio by 2007.
• Funding liabilities in 2007 were greater that 70 percent for Latin America and the Caribbean and roughly 50 percent in Eastern Europe and Central Asia.
• Global deposits provided as much total funding as borrowing (45 percent each).
• Cross-border debt has played an important role in funding growth over the period.
• Countries in Eastern Europe and Central Asia depend most heavily on foreign debt, amplified by the fact that non-deposit financing represents 65 percent of total funding liabilities.
• Development finance institutions have provided the largest share of this debt (40 percent).
• Foreign development finance institutions generally offered MFIs debt with five-year maturities, versus the 3.5-year terms for their local counterparts.
• South Asian MFIs and those in the Middle East and North Africa ended 2007 with large pools of debt raised from financial institutions (totaling 70 percent and 62 percent of funding liabilities, respectively).