

## MICROCAPITAL BRIEFS | TOP STORIES

### IFC, Europe Launch Global Index Insurance Facility

The International Finance Corporation, the European Commission and the Netherlands' Ministry of Foreign Affairs recently announced the launch of the Global Index Insurance Facility, a reinsurance vehicle created in 2006 to mitigate risks in developing countries through index-based insurance, which pays a set level of compensation in the event of a natural disaster that exceeds a measurable level such as a drought that has lasted for a certain number of days or an earthquake that exceeds a certain magnitude. The facility, which will be managed by IFC, has raised USD 36 million to date, all from the European Commission. December 4. 2009

### Financiera Independencia of Mexico to Acquire Financiera Finsol

Financiera Independencia, a microfinance institution (MFI) traded on the Mexican Stock Exchange, has signed an agreement worth the equivalent of USD 41 million to acquire all of the outstanding shares of Finsol, a Mexican MFI. The agreement also includes the acquisition of three related entities: Financiera Popular Finsol, a savings and loan entity; Finsol Vida, an insurance broker; and Instituto Finsol Brazil, an MFI in Brazil. To finance the deal, Financiera Independencia plans to raise USD 23.2 million by issuing 85 million shares. The combined companies will serve 1.4 million clients with an outstanding loan portfolio of USD 432.7 million. December 1. 2009

### FINCA, Deutsche Bank Announce \$21m Sub-Debt Deal

Microfinance network FINCA International and global institution Deutsche Bank have secured capital commitments of USD 21.2 million from private-sector investors for the FINCA Microfinance Fund BV. The proceeds of this subordinated debt transaction will support on-lending and infrastructure development for FINCA microfinance institutions in the Democratic Republic of Congo, Mexico and Central Asia. Investors in the fund include pension funds and socially-oriented private investors. November 23. 2009

### Citi Syndicates \$21.7m Agricultural Loan for BURO Bangladesh

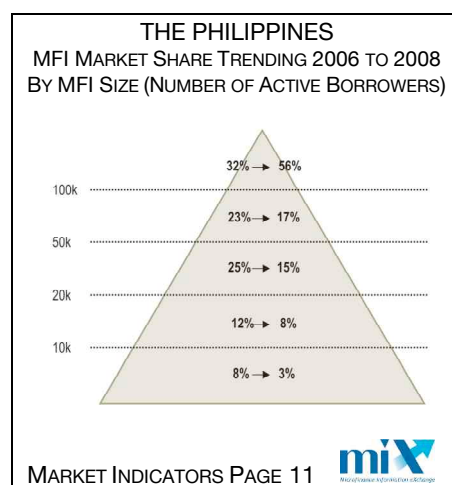
Global bank Citi recently syndicated a five-year local-currency agricultural loan equivalent to USD 21.7 million from 13 banks to microfinance institution BURO Bangladesh. BURO reports a loan portfolio of USD 46 million and 496,000 borrowers. December 8. 2009

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## CGAP MICROFINANCE DEALBOOK

CAPITAL MARKET TRANSACTIONS  
EVERY MONTH

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## MICROCAPITAL BRIEFS

### Philippine Fund to Strengthen Rural Banks

Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC) have created the Strengthening Program for Rural Banks (SPRB), which will raise the equivalent of USD 108 million to encourage the consolidation of ailing banks in the rural banking sector in response to nineteen closures of rural banks during the first quarter of 2009. December 18, 2009

### Intellectap Announces Srijan 2009 Microfinance Award Winners

Intellectap, an Indian consulting firm, recently gave its Srijan 2009 Microfinance Awards to: Arohan for its “Bazar” initiative that provides loans to some of Kolkata’s poorest vendors, microfinance institution Grama Vidiyal for transparency and Vortex Engineering for its low-cost automatic teller machines. In addition, Sahayata Microfinance won the “Emerging Microfinance Institution” award. December 17, 2009

### MicroEnergy Credits, Spandana to Offer Solar-powered Lighting

The Indian division of UK-based bank HSBC has made an unspecified grant to microfinance institution Spandana of India to contract with US-based MicroEnergy Credits to develop products to assist microborrowers in purchasing solar-powered lighting and then selling the carbon credits that result from the use of the new lighting. December 16, 2009

### Defaults Rise in Bosnian Microfinance Sector

Without giving a precise number, Bosnia and Herzegovina Central Bank Governor Kemal Kozaric recently said that the recent level of non-performing microcredit loans has been “even larger” than the commercial non-performing loan rate of 2.8 percent, according to a report on the Interactive Investor website. Over-indebtedness and multiple lending are particular concerns because microcredit organisations have only been required to report to the central credit bureau since late in 2009. During the first half of 2009, the microlending sector in Bosnia and Herzegovina shrank 4 percent. December 16, 2009

### Sentences Handed Down for Attack on Staff of Nicaraguan MFI

Nine Nicaraguan farmers were reportedly sentenced to prison terms of up to five years for a May 2009 attack on staff of the Local Development Fund, a Nicaraguan microfinance institution. The farmers were convicted of shooting at the workers and smashing their vehicle in a remote area, where unrest has sporadically erupted since President Daniel Ortega called on borrowers last year to protest microfinance banks’ interest rates. December 16, 2009

### Omidyar-Tufts Microfinance Fund to Report Gain for 2009

Omidyar-Tufts Microfinance Fund Director Tryfan Evans recently said that the US-based fund will be announcing a positive return for 2009 after final audits are complete. The fund was founded in 2005 with a gift of USD 100 million to Tufts University from Pierre and Pam Omidyar, founders of the US-based Omidyar Network, a “philanthropic investment firm.” December 16, 2009

### Microfinance Equity Fund for Nigeria, Ghana Achieves First Close

Alitheia Capital, a Nigerian investment manager; Goodwell Investments, a for-profit Dutch microfinance investor; and JCS Investments, a fund manager in Ghana have announced the first close of a USD 60 million equity fund focused on microfinance in Nigeria and Ghana. An undisclosed amount has been raised from the Dutch development bank FMO and several Dutch individual and institutional investors. The fund aims to provide investors with a market rate of return and increase the outreach of microfinance organizations by providing growth capital and managerial support. December 15, 2009

### EBRD Loans \$146m to Bank Millennium of Poland for SMEs

The European Bank for Reconstruction and Development, a UK-based development finance institution, recently provided a credit line equivalent to USD 146 million to Bank Millennium of Poland for on-lending to small and medium enterprises. Millennium reports total assets equivalent to USD 11.8 billion, return on equity of 20.3 percent and a cost to income ratio of 61.8 percent. December 15, 2009

### UN's IFAD Supports Pastoralists in Ethiopia

The United Nations International Fund for Agricultural Development recently provided a USD 19.5 million loan and a USD 19.5 million grant to Ethiopia to support pastoral and agro-pastoral households. The five-year project is part of a larger effort that will include establishing women-owned savings and credit cooperatives. December 15, 2009

### BBVA Microfinanzas Expands to Brazil, Mexico

Fundación BBVA Microfinanzas, the microfinance arm of Spanish commercial bank Banco Bilbao Vizcaya Argentaria (BBVA), has announced that in 2010 it will begin partnering with unspecified local microfinance partners in Brazil and Mexico to upgrade their structure and operations. BBVA Microfinanzas is already active in Colombia, Peru, Puerto Rico and Central America. December 15, 2009

### IDB Loans \$17.5m to Banco BHD of the Dominican Republic

The Inter-American Development Bank, which invests in Latin America and the Caribbean, has made a five-year loan of USD 5 million and an eight-year loan of USD 12.5 million to Banco BHD, a commercial bank based in the Dominican Republic, in order to “strengthen its capital position and expand its long-term lending to the corporate sector, including small and medium-sized enterprises.” December 15, 2009

### IFC to Loan \$3m to AB Microfinance Bank Nigeria

The International Finance Corporation (IFC), the investment arm of the World Bank, has announced that it will provide a five-year, local-currency loan worth USD 3 million to AB Microfinance Bank Nigeria Limited, a Nigerian microfinance institution whose shareholders include Germany’s Access Microfinance Holding (51 percent), IFC (15 percent), the African Development Bank (12 percent) and Belgium’s Impulse Microfinance Investment Fund (10 percent). December 15, 2009

### Kyrgyz Bai Tushum to Buy FinnOne Banking Software

Bai Tushum and Partners, a Kyrgyz microfinance institution, has agreed to adopt FinnOne banking software from Nucleus Software Exports Limited. In addition to handling operations, credit, finance, human resources and sales functions, the software will allow for online credit application processing and credit scoring. December 15, 2009

### Erste Bank Group of Austria Launches Microfinance Fund

Erste Group Bank, an Austrian financial services provider with the equivalent of USD 295 billion in total assets, has launched the ESPA VINIS Microfinance Fund, which will invest in bonds and in other funds focused on microfinance in Southeast Asia, South America and Eastern Europe. Further details have not been released. December 15, 2009

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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!*



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**Philippine Bank in Testing Phase of Going Branchless**

BPI-Globe BanKO Savings Bank, which is aiming to become a branchless microfinance bank, has begun pilot testing retail microlending, deposit-taking and microinsurance using mobile money technology. It also plans to offer wholesale loans to microfinance institutions. BanKO is owned by the Bank of the Philippine Islands (BPI), a private commercial bank; Globe Telecommunications, a telecommunications company based in the Philippines; and Ayala Corporation, a holding company and investor in BPI.  
December 14, 2009

**FT, IFC Seek Entries for Sustainable Banking Awards**

*The Financial Times* (FT) newspaper, in partnership with the World Bank's International Finance Corporation, is accepting entries for the 2010 FT Sustainable Banking Awards, which recognize financial institutions for leadership and innovation in integrating environmental, social and governance considerations into their operations. Entries will be accepted until February 28, 2010, and winners will be announced June 3, 2010. December 14, 2009

**National Geographic Affiliate Solicits Loans for Producers**

NOVICA, an affiliate of National Geographic magazine which sells "fairly traded" products made by artisans in poor countries, is offering its customers the chance to make interest-free loans to its suppliers. NOVICA co-founder and CEO Roberto Milk reportedly has argued that its producers are good credit risks because of their income from the sales to his company. NOVICA reports a 20 percent increase in sales over the past year and having arranged sales for 75,000 artisans since 1999. December 14, 2009

**Can Microinsurance Reverse Nigeria's Falling Coverage Rate?**

Prosper Okpue, Managing Director of Insurance Brokers of Nigeria Limited, has reportedly proposed microinsurance as a response to Nigeria's worldwide insurance market share, which reportedly stands below 0.01 percent and is falling further. December 14, 2009

**Survey to Shape Global Masters Degree in Microfinance**

Australia's Foundation for Development Cooperation is asking for your input as it considers founding a new masters degree specialising in microfinance to respond to "weak management quality" at microfinance institutions. December 14, 2009

**MoneyGram to Offer Remittances Via Cooperative Banks in India**

MoneyGram International, a US-based financial services company, is extending its money transfer services to two cooperative banks in India: Abhyudaya Co-op Bank Limited and Thane Janata Sahakari Bank Limited. This brings the number of banks in India offering MoneyGram's services to eighteen, with the new additions expanding the company's reach to smaller markets in the states of Maharashtra, Karnataka and Gujarat. December 14, 2009

**EBRD Loans \$6m to Bank Respublika of Azerbaijan**

The European Bank for Reconstruction and Development, which is controlled by 61 countries and two intergovernmental institutions, is providing a USD 6 million line of credit to Bank Respublika, a commercial bank in Azerbaijan, for on-lending to micro-, small and medium-sized enterprises. Bank Respublika reports assets of USD 478 million and a net loan portfolio of USD 312 million. December 14, 2009



## HBS - ACCION PROGRAM ON STRATEGIC LEADERSHIP FOR MICROFINANCE

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### On Responsible Finance in Bosnia and Herzegovina

At a recent conference hosted by the Central Bank of Bosnia and Herzegovina (CBBH) and German development bank KfW Entwicklungsbank, CBBH Governor Kemal Kozaric reportedly stated, "The global financial crisis has proven that the principle of responsible finance has not been sufficiently developed with banks and with clients. It has now become evident that the liquidity risk of banks in Bosnia and Herzegovina is rather low, and that the main problem is the quality of loans." December 14. 2009

### ILO Microinsurance Innovation Facility Opens Fourth Grant Round

In an effort to encourage innovative microinsurance products, the International Labour Organization's Microinsurance Innovation Facility has opened its fourth round of grant funding. Since its founding in 2008, the Facility has provided 34 innovation grants of USD 20,000 to USD 600,000 to insurance companies, cooperatives, non-governmental organizations and others. The deadline for proposals is March 2, 2010. December 14. 2009

### Tech Provider FINO Receives \$15m from HSBC, Intel, IFC

Financial Information Networks and Operation (FINO), an Indian technology provider to financial institutions, recently received total equity investments equivalent to USD 15 million from HSBC Private Equity, the equity investment arm of the UK-based bank; Intel Capital, the investment arm of the US-based semiconductor producer; and the International Finance Corporation, the investment arm of the World Bank. In an apparently separate transaction, HSBC and Intel also purchased a stake in FINO from Legatum, an investment group based in Dubai, giving it an exit - for an undisclosed "far higher" price - from its 2007 investment of USD 4.5 million. December 14. 2009

### OPIC Loans \$25m to ProCredit Holding for MSMEs

The US government's Overseas Private Investment Corporation (OPIC) has approved a loan of USD 25 million to ProCredit Holding of Germany for on-lending to micro-, small and medium-sized enterprises. ProCredit controls 22 banks in Latin America, Eastern Europe and Africa that hold an aggregate gross loan portfolio equivalent to USD 4.9 billion. OPIC's role is to provide loans and other services to facilitate foreign investment in poor countries. December 14. 2009

### Grameen Koota of India Receives \$5.8m in Equity

Grameen Koota, an Indian microfinance institution, recently raised equity equivalent to USD 5.88 million from four microfinance funds: Belgium's Incofin; Aavishkar Goodwell, which has ties in India and the Netherlands; and two affiliates of Italy's MicroVentures SpA. The cash is earmarked for expanding lending and upgrading technology. A division of Grameen Financial Services Private Limited, Grameen Koota manages a loan portfolio of USD 33.3 million through 117 branches. December 14. 2009

### Taliban Threatened by Microfinance in Afghanistan

Some Afghani farmers that previously grew poppies with Taliban-provided inputs have instead started to use loans from Helmand Islamic Investment and Finance Corporation (HIIFC) to buy their own seeds and other supplies to grow wheat and other food crops. To comply with Shariah - Islamic law - the loans do not bear interest but instead are repaid with a 2 percent administrative fee. HIIFC Director Shah Mohammad Mir says that the loans, normally for no more than USD 2,000 each, have enabled over 30 people to leave the Taliban. As a result, Mr Mir has been threatened via telephone calls and guns being fired outside his home. With support from the United Kingdom, HIIFC's three branches have lent USD 1 million to 1,441 people since 2007. December 13. 2009

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**MIX Taxonomy Standardizes Accounting Practices for MFIs**

The nonprofit Microfinance Information Exchange (MIX) has a new microfinance taxonomy that is based on International Financial Reporting Standards, allowing “for a direct link to an accounting standard in use in over 100 countries worldwide and closer alignment of microfinance with mainstream markets...increasing transparency without increasing the reporting burden on MFIs.” December 10, 2009

**EBRD Extends \$10m Synthetic Loan to AccessBank of Azerbaijan**

AccessBank, an Azerbaijani microfinance institution (MFI), recently agreed to accept a “synthetic” loan from the European Bank for Reconstruction and Development (EBRD). EBRD will provide USD 10 million to AccessBank, but AccessBank will only be obligated to repay the value of the funds in local currency at the time of closing, about AZN 8 million. The loan will allow AccessBank to offer more local currency loans, transferring currency risk away from borrowers to EBRD. EBRD, which aims to promote development in Eastern Europe and Central Asia, has 149 outstanding loans denominated in eleven currencies for a total project value equivalent to USD 3.83 billion. Foreign-owned AccessBank holds a gross loan portfolio of USD 207 million and total assets of USD 239.4 million. December 9, 2009

**Belarus to Develop Microfinance Sector**

Set up in 2008 by the National Bank of Belarus and the United Nations Development Programme (UNDP), the Council on Microfinance Sector Development in Belarus recently drafted a framework for the development of microfinance in the Republic of Belarus, which includes amending credit union laws, developing legislation specific to microfinance institutions, employing foreign experts to train local specialists and increasing financial literacy. December 9, 2009

**IFC to Loan \$51m to India's Kotak Mahindra Bank for SMEs**

The International Finance Corporation (IFC), the investment arm of the World Bank, is set to loan USD 51 million to Kotak Mahindra Bank, an Indian commercial bank, to on-lend to small and medium-sized enterprises involved in international trade. The line is part of the IFC's USD 3 billion Global Trade Finance Program. Founded in 1985, Kotak Mahindra Bank is a member of the Kotak Mahindra Group, which also offers stock brokerage services, mutual funds, life insurance and investment banking. December 8, 2009

**Philippines Considers Lower Tax Rate For MFIs**

Ruben de Lara, President of the Microfinance Council of the Philippines, a 44-member trade association, is backing the passage of the “MicroEnterprise Development Institution Act of 2008,” which would allow nonprofit organizations that offer microloans to become accredited by the Philippine Securities and Exchange Commission and thereby reduce their tax rate to 2 percent of gross income. The Philippine Department of Finance has expressed concern about establishing varying tax regimes for different industries that might cause administrative burdens on the government and encourage other entities to jockey for the same tax benefit. November 19 and December 8, 2009

**Central Bank Of Nigeria Issues Guidelines for Microcredit Fund**

The Central Bank of Nigeria (CBN) recently presented guidelines to state governments on how they may access the monies they were required to contribute to its Microcredit Fund, which now holds the equivalent of USD 334 million. State governments must open an account with a commercial bank solely for the purpose of accessing the Microcredit Fund, at which point they can distribute money to microfinance institutions for on-lending to microenterprises. Once disbursed, the state governments will be responsible for monitoring repayment and paying a percentage of the returns back to the Microcredit Fund. December 8, 2009

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### Nepal Bestows "National" Status on Nirdhan Uttan Bank

The Nepal Rastra Bank, the nation's central bank, recently designated microfinance institution Nirdhan Uttan Bank Limited a "National Level Microfinance Development Bank" upon its acquiring the minimum paid-in capital equivalent to USD 1.34 million. As a result, Nirdhan Uttan can open branches in all seventy-five districts of Nepal, access more types of funding and accept collateral. Licensed as a commercial bank since 1999, Nirdhan Uttan currently operates seventy-five branches covering twenty-four districts. December 8, 2009

### LeapFrog Invests \$6.8m in AllLife, Insurer to People with HIV

LeapFrog Investments, a private equity microinsurance fund, has invested the equivalent of USD 6.8 million in AllLife, a South African insurer for people with HIV and diabetes. AllLife contains costs by providing life insurance only to those who follow a specific health monitoring and treatment program. Ross Beerman, Managing Director of AllLife said of his chronically ill customers: "[O]f course they're insurable - we simply had to invent systems to monitor and support them in the right ways." LeapFrog is a USD 44 million fund that focuses on Africa and Asia. Founded in 2006, AllLife's client base grew to 5,000 in 2008. December 8, 2009

### Kenya's PAWDEP Reports Pricing Data to MFTransparency

The Pamoja Women's Development Programme (PAWDEP), a Kenyan microfinance institution (MFI) that lends only to women, has become the first African MFI to submit product pricing data to MFTransparency, a company that provides pricing data for the microfinance industry. December 8, 2009

### Taking a Risk, SKS Lands \$2.1m for Housing Finance

Indian microfinance institution SKS Microfinance has landed the equivalent of USD 2.1 million from the Housing Development Finance Corporation, an international mortgage lender based in India, which in turn received the funds from German development bank KfW. The announcement comes just days after a senior official at SKS spoke to Livemint.com about housing finance, saying, "We do not know yet how to price it...defaults would be high." SKS will on-lend the funds to improve homes that are also used for income generation. Each loan will be for no more than USD 3,240, with a term of up to five years and a fixed interest rate of 21 percent calculated on a reducing basis. SKS reports a loan portfolio of USD 278 million and 3.5 million borrowers. December 4 and December 8, 2009

### Cambodia to Allow Microfinance Institutions to Accept Deposits

The National Bank of Cambodia recently received a USD 10 million loan from the Asian Development Bank to strengthen legal and regulatory aspects of the country's financial sector. In part, the reforms will target the development of the microfinance sector by permitting microfinance institutions to take deposits from the public and receive credit from domestic commercial banks. December 7, 2009

### Nigerian Bailout: Microfinance Banks Want In

Microfinance proponents are arguing that the Central Bank of Nigeria's proposed bank bailout, which currently excludes collateral-free lending, should be expanded to include microfinance institutions. December 4, 2009

### UN's IFAD Loans \$25m to Rural Microfinance Programme in Mali

The United Nations International Fund for Agricultural Development has loaned USD 25 million to the Republic of Mali for the establishment of the Rural Microfinance Programme, which will consolidate three existing microfinance networks, comprising 94 credit unions; support capacity-building and institutional development within the networks; and link the microfinance institutions to Mali's banking system. December 4, 2009

### Indonesia to Boost KUR Microfinance Program

Indonesia's President Susilo Bambang Yudhoyono recently announced his intention to expand the reach of the Kredit Usaha Rakyat (KUR) program, with the goal of increasing the disbursement of microloans by the equivalent of USD 10 billion over the next five years by providing government guarantees to commercial banks that expand their services into the microfinance sector. Critics point out that the KUR program requires collateral from borrowers, which effectively excludes millions of rural farmers from obtaining loans. December 3, 2009

### ACCION Cleared to Invest in Brazil's Microfinance Sector

ACCION International has reportedly received approval from President Luiz Inácio Lula da Silva to operate in Brazil. The US-based nonprofit will be allowed to hold 99 percent of the Brazilian operations of its Gateway Fund, which holds shares in microfinance institutions in Bolivia, Colombia, El Salvador, Haiti, India, Mexico, Panama, Paraguay, Peru and Venezuela. December 1, 2009

### Pakistan to Allow MFIs to Borrow from Abroad

The State Bank of Pakistan will begin allowing microfinance institutions (MFIs) to borrow from international donor agencies and commercial financial institutions in an attempt to address the "liquidity-starved" state of MFIs in Pakistan. The hard-currency loans, which may only be used to increase the loan portfolio of an MFI, will have minimum terms of two years with pricing based on a reference rate such as the London Inter-bank Offered Rate (LIBOR). December 1, 2009

### India's NABARD to Finance Ratings

The National Bank for Agriculture & Rural Development (NABARD), a state-run development bank in India, will encourage investment in microfinance institutions (MFIs) by offering funding for certain banks to purchase ratings of MFIs. The equivalent of USD 6,000 is available per rating through March 2010 for MFIs with USD 107,000 to USD 2.1 million in loans outstanding. December 1, 2009

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### **Nigeria's Lagos State Assembles \$2.3m for Microfinance**

The state government of Lagos, Nigeria, via the Lagos State Microfinance Institution, and a group of eight microfinance institutions have each committed the equivalent of USD 1.15 million to increase on-lending in the region. December 1. 2009

### **IFC to Invest \$7.5m in AU Financiers of India**

The World Bank's International Finance Corporation reportedly plans to invest the local-currency equivalent of USD 7.5 million in AU Financiers Private Limited, an Indian non-banking financial company. Financial details on AU are unavailable. December 1. 2009

### **European Investment Bank to Loan \$158m in BiH**

The European Investment Bank, the long-term lending bank of the European Union, has approved three loans to financial institutions in Bosnia and Herzegovina. Two loans, each equivalent to USD 72 million, will be allocated to private Intesa Sanpaolo Banka and public Republic of Srpska Investment-Development Bank for projects that include lending to small and medium-sized enterprises (SMEs). Microcredit Foundation LOK will borrow USD 14 million for on-lending to SMEs and start-up businesses. Nonprofit LOK reports a gross loan portfolio of USD 100 million, 44,452 active borrowers, return on assets of 5.69 percent and return on equity of 51.3 percent. November 30. 2009

### **African Development Fund Approves \$16m for Uganda**

The African Development Fund has agreed to loan the equivalent of USD 16 million to finance a Rural Income Employment Enhancement Project run by Uganda's government-controlled Microfinance Support Centre for services including the provision of 2,934 loans through financial intermediaries and the deployment of performance evaluations to enhance the capacity of microfinance institutions. November 30. 2009

### **The Philippines Reviews Client Disclosure Rules**

Bangko Sentral ng Pilipinas (BSP) is planning to review its rules concerning the disclosure of interest rates and fees charged on microfinance loans. BSP's Inclusive Finance Advocacy Director Pia M. Roman has reportedly come out in favor of computing interest rates on a declining balance method in which interest charges are computed based on outstanding loan balance, as opposed to the flat-rate method in which interest is calculated on the original size of the loan regardless of any amount that the borrower has already repaid. November 30. 2009

### **EBRD Syndicates \$75.3m Loan to Garanti Bank for MSMEs**

The European Bank for Reconstruction and Development (EBRD) recently syndicated a loan equivalent to USD 75.3 million to Garanti Bank, a private bank in Turkey, for on-lending to micro-, small and medium-sized enterprises in rural areas. EBRD provided USD 30 million of the financing, and the remainder - in unspecified portions - was provided by the Netherlands Development Finance Company (FMO), Taiwan's International Co-operation and Development Fund and six commercial banks. November 30. 2009

### **IFMR Capital Arranges \$10m Equitas Microloan Securitization**

The Institute for Financial Management and Research (IFMR) Capital, an Indian non-banking finance company, has completed the securitization with pass-through certificates for Equitas Micro Finance India Private Limited. The transaction involves the packaging for resale of 55,000 microloans worth the equivalent of USD 10.4 million, raising cash for Equitas to on-lend at a lower cost than it would pay to borrow from a bank. Equitas reports a gross loan portfolio of USD 43 million, 339,000 active borrowers, total assets of USD 61 million, return on assets of 1.52 percent and return on equity of 4.02 percent. November 30. 2009

### **IFC Takes \$1.1m Equity Stake in India's Belstar**

The International Finance Corporation (IFC), a member of the World Bank Group, has agreed to make an equity investment of USD 1.15 million in Hand in Hand's microfinance arm, Belstar Investment and Finance Limited of India. IFC Advisory Services will also help Belstar improve risk management, staff training and product range. Hand in Hand is an NGO that is involved in efforts such as reducing child labor and improving solid waste management. November 27. 2009

### **India Extends Insurance to All Employment Scheme Participants**

All 11,500 workers in the National Rural Employment Scheme in the Saikul area of Manipur, India, recently became microinsurance policyholders under the government-owned Life Insurance Corporation of India (LIC). In aggregate, the workers, spanning 255 villages, will receive the equivalent of USD 3.2 million upon maturity of the insurance policies over 5 to 15 years. LIC currently provides products that insure against accidents and disability, with coverage as low as USD 110 and annual payments as low as USD 0.32. November 26. 2009

### **West African MFIs Forced to Join Trade Associations**

New legislation will require all microfinance institutions (MFIs) to join national trade associations in the West African countries of Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo as part of an attempt by the Central Bank of West African States to encourage sustainable growth in the sector. The Government of Luxembourg and Developpement International Desjardins, the development arm of a Canada's investment bank Desjardins Group, are also involved. November 25. 2009

### **Warba Insurance of Kuwait Launches Microinsurance Product**

Warba Insurance Company (WIC) of Kuwait has expanded from transport, life, health and other insurance specialties into microinsurance. The new policy will offer compensation up to the equivalent of USD 14,000 in the case of death, expenses for returning one's remains from a foreign country up to USD 1,753 and unspecified levels of disability coverage. For the first quarter of 2009, WIC reports net available profit of USD 50.8 million, return on assets of 1.9 percent and return on equity of 3.6 percent. November 25. 2009

### **Faulu of Kenya Acquires Insurance Brokerage**

Faulu Advisory Services (FAS), a fully owned subsidiary of microfinance institution Faulu Kenya, has acquired Kenya's Trustmark Insurance Brokers for an undisclosed price as part of an effort to expand into microinsurance. Faulu Kenya reports a gross loan portfolio of USD 37.6 million, 91,105 active borrowers, total assets of USD 47.7 million, return on assets of -1.11 percent and return on equity of -7.08 percent. November 25. 2009

### **Nokia Expects Huge Growth in Mobile Payments**

Mobile phone maker Nokia is scheduled to rollout Obopay's mobile payment service, which is based on SMS (text messaging), to several banks early in 2010. Nokia has invested an undisclosed amount in the privately-held, US-based Obopay in anticipation of surge in mobile financial services, which have been estimated to become worth USD 27 billion worldwide by 2014. November 25. 2009

### **Reinsurer SCOR Invests in Microinsurance Fund LeapFrog**

According to The Review, an insurance magazine, the Paris-based reinsurer SCOR Group has invested an undisclosed amount in LeapFrog Investments, a microinsurance private equity fund. SCOR's CFO, Mr. Paolo de Martin, will be joining LeapFrog's advisory board. SCOR reports income equivalent to USD 472 billion. LeapFrog has raised USD 44 million to date from a range of public and private investors. November 25. 2009



### CGAP's Littlefield Nominated to Run OPIC

President Barack Obama has announced that he will nominate Elizabeth Littlefield to become President of the Overseas Private Investment Corporation, a US government agency which facilitates investment in developing countries. Ms Littlefield is currently a Director of the World Bank and the CEO of CGAP (Consultative Group to Assist the Poor), a multi-donor organization created to assist in the development the microfinance industry. November 24. 2009

### Increasing Regulation in Russia's Microfinance Sector

New legislation has reportedly been passed to regulate Russia's credit cooperatives for the first time, which could boost foreign investment in Russian microfinance, which has been hampered by the wide range of management, governance and accounting standards now in use. November 24. 2009

### India Financial Inclusion Fund Raises \$90m in 15 Months

The India Financial Inclusion Fund (IFIF), an equity fund that invests in companies that provide financial services to low-income clients, recently met its goal of raising USD 90 million in capital over the course of fifteen months. The fund will invest in microfinance institutions, companies that provide low-cost housing and other firms that provide financial services to poor people. Investors include the United Kingdom's government-owned CDC Group, the Netherlands Development Finance Company (FMO) and US-based Gray Ghost Microfinance Fund. November 24. 2009

### Advans Creates Subsidiary MFI: Advans Côte d'Ivoire

Advans SA, a French venture capital firm, has announced the creation of Advans Côte d'Ivoire, its fifth microfinance institution. Advans SA, which also operates microfinance subsidiaries in three other African countries and Cambodia, reports assets equivalent to USD 10.6 million. November 24. 2009

### BASIX Subsidiaries Raising Equity Capital, Consulting in Africa

BASIX Group, which holds several companies based in India that offer services for poor people, has recently expanded its technical assistance services to South Africa, Ethiopia and Rwanda and has announced plans to raise up to USD 25 million in equity capital before the end of 2009 for its microfinance arm Bhartiya Samruddhi Finance Limited. Prior investors in Bhartiya Samruddhi include Lok Capital LLC, Aavishkaar Goodwell India Microfinance Development Company and the Small Industries Development Bank of India. BASIX reports 630,000 borrowers, a loan portfolio of USD 114.8 million and 1 million non-banking customers. November 23 and November 24. 2009

### Kenyan Finance Minister Discusses Microfinance Reform

At a recent conference, Kenya's Minister of Finance Uhuru Kenyatta discussed the government's efforts to reform the microfinance sector. He cited as progress since 2008: the issuance of licenses to microfinance institutions, creating a microfinance supervisory division within the Ministry of Finance and plans to add laws regulating remittances. November 23. 2009

### Philanthropists Turning to Program-Related Investments

A recent *Wall Street Journal* report covered the trend among many philanthropists of moving away from making donations in favor of program-related investments (PRIs), which can produce returns for reinvesting in subsequent efforts: "[P]rogram-related investments are getting attention from a wider array of potential donors - including smaller family foundations, investors with donor-advised funds and everyday individual givers." Products from Kiva, Oikocredit, ACCION and MicroPlace were cited as examples. November 23. 2009

### India Wants Credit Unions to Be More Competitive

The Reserve Bank of India recently published a report recommending the establishment of a national umbrella trade association for urban cooperative banks - commonly known as credit unions - in order to increase their competitiveness against commercial banks. Such a trade group would likely offer a common automated teller network and an emergency fund for troubled institutions. November 23. 2009

### Indian Microfinance Institutions Take Interest in Housing

Housing developers in India have begun partnering with microfinance institutions to sell units to people who may not qualify for traditional mortgages. Mukesh Gandhi, financial director of non-banking finance company MAS Financial Services, recently told *The Economic Times* newspaper: "We have already lent [USD 2.2 million] to around 300 people over the past three months and should disburse around [USD 15 million] by the end of the year. While the interest in retail lending is very high (over 27 percent per annum) due to operational costs, for the housing sector it is 12 to 14 percent." November 23. 2009

### Bank of Tanzania Borrows \$40m for Housing from World Bank

The Bank of Tanzania has borrowed USD 40 million from the World Bank to increase the availability of financing for the purchase, construction and rehabilitation of housing. USD 3 million of the loan will go to a "Housing Micro-Finance Fund." November 23. 2009

### Bolivia's BancoSol Places Local Currency Bond Worth \$7m

Bolivian microfinance institution BancoSol has issued seven-year bonds worth the equivalent of USD 7.12 million, at approximately 4 percent interest, on the La Paz market. The issue is planned as the first in a line worth USD 26 million. BancoSol reports 125,900 customers and a loan book of USD 335 million. November 23. 2009

### Muang Thai Life Assurance Taps Rural Market

Muang Thai Life Assurance (MTLA), which has offered health, life and other insurance since 1951 and microinsurance since 2005, is expanding its crop insurance offering in rural Thailand. Annual premiums begin at the equivalent of USD 36 for coverage of USD 1,506. With assets of USD 1.2 billion, MTLA also offers money management training to its microinsurance policy holders. November 23. 2009

### Nigerian Associations to Merge in Response to Supervision Crisis

Two Nigerian microfinance trade associations, the National Association of Microfinance Banks and the Association of Microfinance Banks in Nigeria, plan form a single organization in an effort to restore confidence in the industry by promoting greater adherence by members to a common set of business practices and to lessen the regulatory burden on the state. The resulting National Association of Microfinance Banks will be the only organization authorized by the Central Bank of Nigeria to represent microfinance institutions. November 20. 2009

### Cathay Life Partners with NGO to Offer Microinsurance in Taiwan

Cathay Life Insurance Company Limited, a Taiwanese life insurer with reported assets of USD 80 million, has issued a microinsurance product in partnership with the Taiwan Fund for Children and Families, a nonprofit organization that provides support for 21,000 households. The product will provide accident protection for poor people between the ages of 15 and 65. Policyholders will pay annual premiums as low as USD 0.20 for coverage of USD 309. To reduce operating costs, Cathay Life will only allow groups of 26 or more people to participate. Cathay Life's Senior Vice President Liu Ta Kun stated, "We do not aim to make a profit from the micro policy, but we do hope to at least break even." November 13. 2009



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**TOP NOVEMBER 2009 MICROFINANCE TRANSACTIONS**

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

Investor	Investee	Region	Amount (USD)	Type
AFD (French Development Agency)	People Credit Fund	EAP	45,000,000	Debt
Financiera Independencia	Financiera Finsol (100% shareholder buyout)	LAC	~41,900,000	Equity
Eight development finance institutions & commercial banks	Garanti Bank	ECA	31,220,000	Debt
Citi & twelve other banks	BURO	SA	~21,700,000	Debt
European Bank for Reconstruction and Development	Garanti Bank	ECA	20,790,000	Debt
Various (Unspecified)	FINCA Microfinance Fund BV	WW	16,800,000	Equity
Access Bank Plc (Nigeria) and Nigeria's Anambra state government	Unspecified Local Banks	SSA	~16,500,000	Debt
African Development Fund (African Development Bank)	Microfinance Support Centre	SSA	~16,230,000	Debt
European Bank for Reconstruction and Development	Bank Vozrozhdenie	ECA	16,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	ProCredit Holding	WW	~14,980,000	Debt
European Investment Bank	Lok Microfinance	ECA	14,900,000	Debt
European Fund for Southeast Europe	NLB Tutunska banka AD Skopje	ECA	11,913,626	Debt
ICICI Prudential Asset Management, Axis Bank, Dhanalakshmi Bank & IFMR Capital	Equitas Micro Finance India Private Limited	SA	~10,400,000	Equity
International Finance Corporation	AU Financiers Private Limited	SA	~7,520,000	Equity
Bond Issue	Banco Solidario	LAC	~7,120,000	Debt
International Finance Corporation, BlueOrchard Private Equity Fund, Triodos Bank Group, European Bank for Reconstruction and Development & EIT Capital Management LLC	TenGer Financial Group LLC	ECA	~5,300,000	Equity
responsAbility Global Microfinance Fund	WWB Popayan	LAC	~4,947,197	Debt
Government of Mozambique	Various Retail Credit Providers	SSA	3,500,000	Debt
Oikocredit	CREAR	LAC	~3,142,189	Debt
World Bank	Bank of Tanzania	SSA	3,000,000	Debt
responsAbility Global Microfinance Fund	LOMC	SA	3,000,000	Debt
ASN-Novib Fund (Triple Jump)	FINCA Microfinance Fund BV	WW	3,000,000	Equity
Microfinance Enhancement Facility (BlueOrchard Finance)	Confianza	LAC	~2,500,000	Debt
Lagos State Microfinance Institution	Various Retail Credit Providers	SSA	~2,300,000	Debt
Oikocredit	Satin Creditcare	SA	~2,155,573	Debt
Vision Microfinance Fund (Absolute Portfolio Management)	LOMC	SA	2,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	LAPO	SSA	2,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	VisionFund Cambodia	EAP	2,000,000	Debt
Oikocredit	FUBODE	LAC	2,000,000	Debt
Oikocredit	FONDECO	LAC	2,000,000	Debt
ASN-Novib Fund (Triple Jump)	Banco Procredit SA	LAC	2,000,000	Debt

**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

## EDITORIAL

### Field Notes: In Nicaragua, the Writing Was on the Wall

Having just returned from Nicaragua, I can't help but feel that the responsibility for the problems in Nicaragua's microfinance industry should be shared.

At the Inter-American Development Bank's annual FOROMIC in El Salvador in 2007, I watched managers of microfinance investment vehicles (MIVs) competing to get face time with the heads of Nicaraguan microfinance institutions (MFIs). I naively wondered why there was interest in so many MFIs in this one country of 5 million people, 600,000 informal sector workers and 300,000 credit clients. Today, the slowdown in the international and domestic economies are wreaking havoc on this small country and, as a result, on its microfinance sector. Many are blaming the government-supported "no payment" movement earlier this year. However, this movement was an outcome rather than rationale for the problems of the microfinance sector. Banex, which has historically been flooded with funds from most of the MIVs, has buckled under the strain of high delinquencies (29 percent according to the Superintendency), stricter provisioning and a saturated credit market. Just this month, international shareholders recapitalized the bank with a USD 14 million infusion. Problems in the agricultural sector are widespread. The price of calves, for example, has fallen by over 70 percent. The 30-day portfolio-at-risk ratio of a few agricultural MFIs is around 25 percent. MFI consumer lending has halted. Microenterprises are not earning enough to cover consumption loan payments. Women clients of one MFI told us that they have been dipping into savings for the past two years just to get by. Not surprisingly, traditional retail chains that offer consumer loans have delinquencies of over 40 percent.

Of course, each crisis brings opportunities. MFIs are getting back to basics: enterprise lending. Some MFIs will end up as winners in the shakeout. The main losers are the clients. Many folks will be hard pressed to access credit since their records are tainted at the credit bureaus. One MFI mentioned they have seen borrowers sending their grown children with clean credit records to MFIs to borrow in their stead. Serious governance issues in a few MFIs have condemned these to uncertain paths. The government and its subsidized Tier I and II lending plans are adding to this mess by funding institutions with questionable governance and credit practices.

MIVs, many funded by multilateral and bilateral donors, are pulling back due to "country risk." Was market saturation, weak MFI governance, political instability and low prospects for economic growth not priced into Nicaraguan investments? Or were MIVs and donor agencies too busy trying to place their money to bother to kick the tires? Investors beware.

I am not advocating a bailout in Nicaragua, but it seems to me that investors who contributed to the rapid lending growth of 2004 to 2007 did so with the intention of "doing good". They should now step up, help strengthen governance, capacity and technology, and stop whining about country risk. The writing was on the wall.

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

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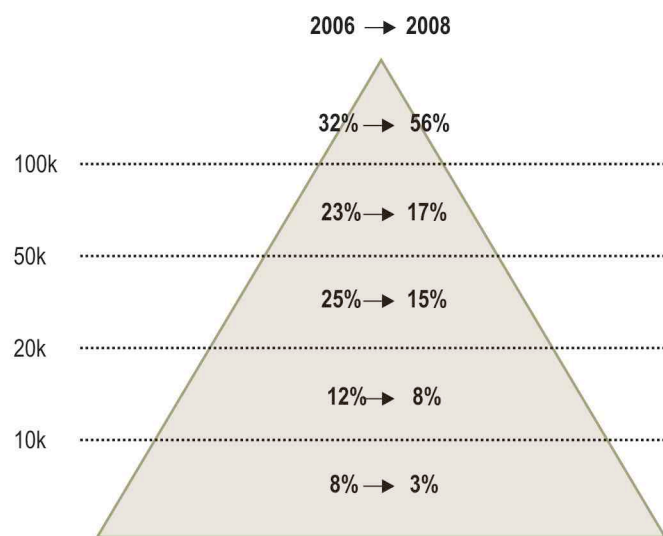
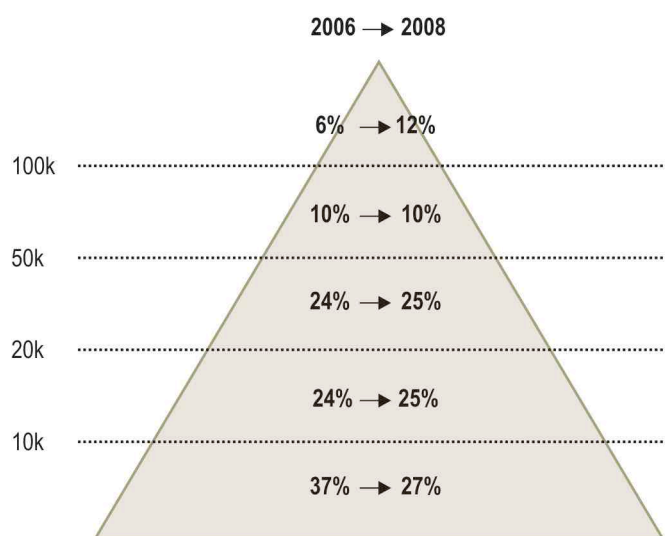
## MICROCAPITAL MARKET INDICATORS | THE PHILIPPINES

51 MFIs REPORTING

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

MFI NAME	AVERAGE ANNUAL USD INCREASE	AVERAGE ANNUAL % INCREASE	2006	2008
1st Valley Bank (formerly Rural Bank of Kapatagan Valley Inc)	11,554,179	43	22,440,332	45,548,689
Center for Agriculture and Rural Development Inc	10,259,596	51	16,105,744	36,624,936
Philippine Rural Banking Corporation	9,907,192	37	22,386,750	42,201,134
Life Bank Foundation Inc	7,298,789	102	4,718,656	19,316,234
Rural Green Bank of Caraga Inc	7,177,537	32	19,550,080	33,905,154
CARD Bank Inc	6,604,229	71	6,930,075	20,138,533
Taytay Sa Kauswagan Inc	5,641,813	33	14,706,394	25,990,020
GM Bank	4,459,983	30	12,936,791	21,856,756
TSPI Development Corporation	4,417,412	27	14,227,076	23,061,900
Valiant Rural Bank (Iloilo City) Inc	3,212,019	46	5,733,256	12,157,293

### 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 2006 - 2008 to MicroBanking Bulletin (MBB) or MIX Market.  
 Source: Microfinance Information Exchange, Inc., December 2009, based on MFIs reporting to MBB or MIX Market.

## UPCOMING EVENTS

### Beyond Existing Microfinance: What next?

January 7 - January 8, 2010, Cape Coast, Ghana

This fifth annual University of Cape Coast microfinance conference will allow practitioners, academics and other stakeholders to share experiences and practical ways of using microfinance as a tool for ensuring food security in Africa. The registration fee is GHC 230 or USD 154. More information is available via +233 42 37722, [uccmicrofinance@gmail.com](mailto:uccmicrofinance@gmail.com) or <http://uccmicrofinance.net/>.

### Third International Conference on Micro Finance

January 22 - January 24, 2010, Pondicherry, India

This event brings together economists, policy makers and practitioners to discuss social performance measurement, risks, capacity building, regulation and other issues relating to microfinance. The registration fee is no more than USD 42 for domestic attendees and USD 100 for participants from abroad. More information is available from Dr D Lazar at +91 0413 2654369, +91 94866 50016, [icomfi2010.enquiry@gmail.com](mailto:icomfi2010.enquiry@gmail.com) or <http://www.pondiuni.edu.in/events/icomfi2010/>.

### Second Microfinance & Sustainable Development Summit

January 25 - January 27, 2010, New York, USA

This event will look at broadening the scope of impact investing - both inside and outside the microfinance community - to identify opportunities for investors looking for both social and financial benefits. A discounted fee of USD 799 is available to *MicroCapital Monitor* subscribers. Details are available via +1 646 378 6026, [info@iqpc.com](mailto:info@iqpc.com) or <http://www.microfinanceconference.com/>.

### Microfinance Investments in Asia: Capturing the Untapped Potential of Asian Markets & International Investors

January 26 - January 27, 2010, Singapore

This conference is intended for policy makers and investors to gain exposure to microfinance investment opportunities in Asia. The full registration fee is USD 2399, with an add-on workshop and various discounts available. More information is available via <http://hansonwade.com/events/microfinance-investments-in-asia/>, +44 203 178 3420 or [info@hansonwade.com](mailto:info@hansonwade.com).

### Nepal Microfinance Summit

February 14 - February 16, 2010, Kathmandu, Nepal

Presented by Nepal's Center for Microfinance, this event is aimed at uniting microfinance stakeholders in Nepal in committing to a strong and inclusive microfinance sector through the development of a joint microfinance strategy and action plan. The registration fee for domestic attendees is NPR 1,000 and the fee for international participants is USD 100. More details are available via Tejhari Ghimire at +977 1 4434041, +977 1 4443984, [tejhari@cmfnepal.org](mailto:tejhari@cmfnepal.org) or <http://microfinancesummitnepal.org/>.

### MicroInsurance Summit 2010: Evaluating Strategies for Delivery, Partner-Agent Models and Scalability

February 23 - February 25, 2010, London, UK

This event will cover case studies, catalysts for growth, distribution models, key performance indicators, effective marketing and how to support low-income clients to boost insurance literacy. The fee to attend is GBP 1,499, with add-on workshops available and discounts available for registrations completed by December 18. More information is available from +44 (0) 203 141 8700, <http://hansonwade.com/events/microinsurance-summit-2010/> or [info@hansonwade.com](mailto:info@hansonwade.com).

### Doing Good and Doing Well:

#### A Conference on Responsible Business

February 26 - February 27, 2010, Barcelona, Spain

Organized by students of the IESE Business School at the University of Navarra and Net Impact, this event will cover topics such as microfinance, corporate citizenship, public-private partnerships, and renewable energy. Sessions will include a career forum, interactive panels, networking events, and a venture seminar to "facilitate the investment process of worthwhile start-up companies." The registration fee is EUR 200 through January 15, 2010, with discounts available for affiliates of the organizers. More details are available via <http://dgdw.iese.edu/>, [dgdw@iese.net](mailto:dgdw@iese.net) or +34 93 253 42 00.

### MMT Americas Conference and Expo

March 8 - March 11, 2010, Cancun, Mexico

This mobile money transfer event will focus on interactive roundtable discussions and actionable advice on launching mobile financial services. Registrations completed by January 15, 2010 cost USD 1,499, with add-on workshops available. More information is available via [mmt@clarionevents.com](mailto:mmt@clarionevents.com), <http://www.mobile-money-transfer.com/americas> or +44 (0) 20 7067 1831.

### Microfinance Investment Summit

March 10 - March 11, 2010, Geneva, Switzerland

This event, organized by C5, offers the opportunity to learn about and discuss the latest trends in microfinance investment. Fees range from GBP 1199 to GBP 1499, with add-on workshops available. Details can be found via <http://www.microfinancesummit.com/>, +44 (0) 20 7878 6888 or [registrations@C5-online.com](mailto:registrations@C5-online.com).

### 2010 Africa/Middle East Regional Microcredit Summit

April 7 - April 10, 2010, Nairobi, Kenya

Kenya's Association of Microfinance Institutions is organizing this conference, which will showcase successful projects and encourage the integration of the microfinance industry with other sectors. It also review progress towards the Microcredit Summit's goals for 2015, which are (1) to provide financial services to 175 million of the world's poorest and (2) to help 100 million families rise above the poverty line. For more information contact [info@amfkenya.com](mailto:info@amfkenya.com) or +254 (0) 20 3862372. The fee structure has not been released, and the official website is not yet complete, but further information is available at [http://www.microcreditsummit.org/partner\\_with\\_us](http://www.microcreditsummit.org/partner_with_us).

### Third Annual Global Microfinance Investment Congress

May 17 - May 18, 2010, New York, USA

Presented by PlaNet Finance, this conference consists of workshops, case studies and panels focused on the latest strategies for success in microfinance investing. The fee for registrations completed by March 20 is USD 1395, with add-on workshops available. Details are available via Kristy Perkins at [k.perkins@americanconference.com](mailto:k.perkins@americanconference.com), +1 416 927 8200 or <http://www.microfinancecongress.com/>.

### International Disaster and Risk Conference: From Thoughts to Action

May 30 - June 3, 2010, Davos, Switzerland

This conference will focus on the similarities and differences in risk management across various regions of the world, representing a wide range of development phases, political systems and societal and environmental conditions. Registrations completed by February 26, 2010 enjoy a discounted rate of CHF 770 (CHF 520 for students). This cost includes in-country transportation to and from Davos. Registration will open January 2, 2010. More information is available via +41 81 414 16 00, [IDRC2010@grforum.org](mailto:IDRC2010@grforum.org) or <http://www.davos2010.org/>. ☑

## PAPER WRAP-UPS

### IFC Reports on Its Activities: Access to Finance (A2F) Highlights Report 2009

*Published the International Financial Corporation, October 2009, 40 pages, available at: [http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/A2F-HighlightsReport2009/\\$FILE/A2F-HighlightsReport2009.pdf](http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/A2F-HighlightsReport2009/$FILE/A2F-HighlightsReport2009.pdf)*

This report covers the efforts of the International Financial Corporation (IFC) to expand and improve financial access. IFC has attempted to build and strengthen financial institutions through 60 advisory projects in SME banking worth USD 90 million. In terms of microfinance, IFC's portfolio includes USD 1.3 billion investments in 140 microfinance institutions (MFIs). The IFC has also spent USD 70 million on advisory services for 45 percent of the MFIs in which it has invested.

It has aimed to improve housing finance through advisory services to "middle-tier mortgage finance institutions" in Mexico and Albania. Advisory services have also been extended in insurance through "feasibility studies, product development, and risk management." Additionally, IFC has a USD 3 billion Global Trade Finance Program providing partial or full guarantees for emerging market banks for trade related transactions.

IFC has also attempted to improve financial infrastructure, for example by supporting credit bureau development in 50 countries since 2001. In terms of securities markets, the IFC provides advisory services to develop emerging bond, securitization and equity markets, and it provides SME financing through these markets. IFC has also provided technical advice in over 100 countries regarding payment services and remittances.

In response to the global downturn, IFC has added new programs including: (1) risk management advisory services related to "capital adequacy, liquidity, asset-liability management, and operational, market, and credit risk" and (2) loan portfolio monitoring and nonperforming loan management.

Lastly, the IFC has produced or supported many publications related to financial access including country case studies on microfinance, leasing, crisis response, bond issuance and other topics. The also developed the World Bank-IFC Remittance Prices Database and the *SME Banking Knowledge Guide*, for those who bank to SMEs.

### Insurance in Developing Countries: Exploring Opportunities in Microinsurance

*Published by Lloyd's 360 Risk Insight and the MicroInsurance Centre, November 2009, 38 pages, available at: [http://lloyds.com/NR/rdonlyres/5CFE7CAF-0075-415C-B0F2-BEBF0323059E/0/Microinsurancereport\\_Nov2009.pdf](http://lloyds.com/NR/rdonlyres/5CFE7CAF-0075-415C-B0F2-BEBF0323059E/0/Microinsurancereport_Nov2009.pdf)*

This report describes the current landscape of microinsurance and lays out the means and benefits of entering this emerging market.

According to the report, the market for microinsurance in developing countries is estimated to be between 1.5 and 3 billion people for products ranging from health and life, to agricultural and property, to catastrophe insurance. Currently, microinsurance covers only about 5 percent of the potential market, or 135 million people.

While the report primarily focuses on commercial insurers that provide for-profit microinsurance products, it also covers reinsurers, non-governmental organizations, post offices and microfinance institutions (MFIs). Commercial insurers remain the largest suppliers of microinsurance, covering over 50 million individuals.

To stimulate growth, government regulation must simultaneously encourage innovation and growth while protecting customers. In India, for example, all insurers are mandated to provide insurance in rural areas. As a result, "there has been a surge in product innovation and experimentation with new distribution channels." The authors argue that this approach should be combined with educational workshops to promote learning and collaboration between insurers, distribution channels and regulators.

The report states that while "government and donor-sponsored schemes will remain essential for initiating market developments... mainstreaming microinsurance, beyond sponsored pilot [programs] will have to be market-driven." Profitability, it argues, is necessary for the industry to attract enough investment to achieve sustainable growth and reach the potential billions of people not yet covered.

### Microfinance Institution Benchmarks

*Published by the Microfinance Information Exchange (MIX), various dates, available at: <http://themix.org/publications/search/results/taxonomy:24>*

The Microfinance Information Exchange (MIX) recently released a string of microfinance institution "benchmarking" reports, including "2008 MFI Benchmarks," which covers financial and performance data from 1084 microfinance institutions (MFIs) worldwide. This report is available in five languages. Also newly available in English are reports covering Azerbaijan and Tajikistan. Newly available in Spanish are reports on Central America, Ecuador and Nicaragua.

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## Banks and Microbanks

*By Robert Cull, Asli Demirgüç-Kunt & Jonathan Morduch, published by the Financial Access Initiative, September 2009, 54 pages, available at: <http://financialaccess.org/node/2314>*

This paper is intended to determine whether the proximity of banks affects the profitability and outreach of microfinance institutions (MFIs) in 38 developing countries. In other words, does competition from larger banks cause MFIs to lose some of their more “profitable” customers, resulting in a smaller average loan size and depressed profits? A smaller average loan size, as well as an increase in women customers, would be indicators of a greater depth of outreach in terms of “poor and excluded groups,” according to the authors. Bank penetration is measured in both “branches per capita” and “branches per square kilometer.” Data from 328 MFIs was used for this study.

The main results are as follows: An increase in bank penetration, when measured by branches per capita, is associated with a decrease in loan size for MFIs. There was no significant result for branches per square kilometer. Conversely, bank penetration, when measured by branches

per square kilometer, is significantly correlated with an increase in the share of women borrowers for MFIs, with no significant result for the “branches per capita” measure. As stated, the authors consider both of these results to be evidence that competition from banks causes MFIs to have greater outreach to the niche markets of poor and excluded borrowers.

In terms of profitability, increased bank penetration (by both measures) is weakly correlated with return on assets for MFIs and is not significantly correlated with a “financial self-sufficiency index” that indicates the extent to which revenues cover costs. This does not provide particularly strong evidence for the hypothesis that competition decreases MFI profits.

Certain other factors also had important results. For example, MFIs that employ group lending models in which there is joint liability among clients have smaller loans and a higher share of women clients to start. Therefore, they are less likely to be affected by bank penetration (by either measure) in terms of profitability and outreach as compared to those MFIs that employ bilateral lending contracts.

The authors run several other analyses to determine if there are alternative explanations for their results. For instance, because MFIs may choose to enter markets for reasons related to pre-existing high or low bank penetration, a regression was run using only MFIs that have been established since 1996 to attempt to avoid the effects of such selection. They also add controls such as whether the banks tend to be foreign-owned or state-owned to determine if these factors, as opposed to competition, would affect results. Lastly, the authors used measures of bank regulation and supervision to determine if these variable could somehow affect outreach. The authors find that the results of these tests vary little from the original findings.

Therefore, the authors believe that they have reasonably established a relationship between bank penetration and competition with MFIs. They associate such competition with a decrease in loan size, an increase in loans to women, and, weakly, with a decrease in return on assets.

# Welcome MFI Leaders

(Our audience just  
took a big jump.)

2005 - 2006: MicroCapital begins reporting original microfinance news at MicroCapital.org and in *The MicroCapital Monitor* monthly news digest

2007 - 2008: Readership of *The MicroCapital Monitor* exceeds 6,000; investors dominate paid readership

**2009: The complete edition of *The MicroCapital Monitor* is delivered every month to an additional 2,000 MFI leaders**

 MicroCapital

## Microfinance Tradeoffs: Regulation, Competition and Financing

By Robert Cull, Asli Demirgüç-Kunt & Jonathan Morduch, published by the Financial Access Initiative, September 2009, 24 pages, available at: [http://financialaccess.org/sites/default/files/FAI\\_Microfinance\\_Tradeoffs.pdf](http://financialaccess.org/sites/default/files/FAI_Microfinance_Tradeoffs.pdf)

Using evidence from global surveys on microfinance institutions (MFIs), the authors examine the tradeoffs between “meeting social goals and maximizing financial performance.” The authors mainly use 2005 data from the Microfinance Information Exchange’s *MicroBanking Bulletin*.

This study covers the broad topics of contracts, commercialization, regulation and competition. The authors started with a dataset on 124 MFIs in 49 countries and, after incorporating “additional observations, data, and variables,” the authors increased their sample to as large as 346 MFIs in 67 countries.

### Contracts:

The authors find that “financially self-sustainable individual lenders tend to lend to both relatively poorer clients and more women.” This supports the idea that MFIs are achieving “depth of outreach.” Additionally, the data shows that loan repayment rates generally decrease as interest rates increase, except in the case of group lenders and village banks, thus displaying the effectiveness of group loans in providing an alternative form of collateral. Furthermore, serving a poorer clientele is correlated with higher average costs, but proportionally higher interest rates prevent these costs from lessening profits. Lastly, larger and older institutions are less likely to achieve simultaneous profitability and deep outreach.

### Commercialization:

Of the MFIs under consideration from the *MicroBanking Bulletin*, 45 percent are non-governmental organizations (NGOs), accounting for 51 percent of borrowers. Sixty-one percent of subsidies go to these NGOs. Over half of the MFIs in the sample are profitable, though commercial MFIs are more likely to be profitable than NGOs. Additionally, commercial MFIs have loan sizes that are four times larger than NGOs, and NGOs charge interest rates that are two times those charged by commercial MFIs. However, both commercial and NGO MFIs generally have high repayment rates; the median 30-day portfolio at risk ratio is below 4 percent.

### Regulation:

Generally speaking, MFIs that face “rigorous and regular supervision” from regulating authorities reap similar profits to those that do not. This could be explained by the fact that regulated MFIs are more likely to have deposit-taking licenses, and therefore have an additional source of financing to cover the costs of meeting regulatory requirements. However, heavily supervised MFIs have higher loan sizes and lend less to women than those that are not heavily supervised.

### Competition:

The authors find that “greater bank penetration in the overall economy” is associated with MFIs providing smaller loans and more loans to women. However, this increased depth of outreach has little effect on the profitability of these MFIs. This is yet another indicator that profitability and depth of outreach do not have to be mutually exclusive.

### State of the Sector 2009

Published by ACCESS Development Services, October 2009, 176 pages, available for purchase at: <http://www.sagepub.in/browse/book.asp?bookid=1438>

This study of 230 microfinance institutions (MFIs) in India indicates that one third of MFIs lost money during the year ending March 2009. Forty-two percent of MFIs with a loan portfolio equivalent to less than USD 1 million reported losses, but 80 percent with a loan portfolio over USD 10.7 million were profitable. The report further indicates an extremely high repayment rate of 99 percent. Overall, the MFIs in the study nearly doubled their loan portfolio in the 2009 fiscal year to USD 2.5 billion, adding 8.5 million borrowers for a total of 22.6 million. 📄



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