MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FEBRUARY 2009 | VOLUME.4 ISSUE.2

MICROCAPITAL BRIEFS | TOP STORIES

European Investment Bank Rolls Out $38b for SMEs

The European Investment Bank (EIB) is indirectly assisting small and medium-sized enterprises by making the equivalent of USD 38 billion available over three years for on-lending by banks and for technical assistance to microfinance institutions (MFIs). EIB will accept half of the on-lending risk to encourage banks to get the money out the door. The technical assistance for MFIs is intended to make larger banks less hesitant to lend to them. February 26. 2009

FINO Launches Microfinance Credit Bureau in India

Financial Information Network & Operations (FINO) of India has launched Sayana Ravi, a credit bureau for poor people and the institutions that serve them. Transaction amounts and repayment histories are analyzed to give credit scores that are stored on biometric smart cards. February 26. 2009

Russian Government Investing $830m in SMEs, Microfinance

In response to a recent decrease in bank lending to small and medium-sized enterprises (SMEs) in Russia, the Ministry of Economic Development has proposed the distribution of the equivalent of USD 830 million in support of SMEs and microfinance. *Continued on Page 3.*

President's Infamous Brother Floods Ugandan Market with $133m

The government of Uganda has set aside the equivalent of USD 133.7 million for subsidized loans from the government-owned Microfinance Support Center (MSC) to individuals and small businesses via Savings and Credit Cooperative Societies (SACCOs). MSC will make loans at interest rates of 0 to 13 percent to SACCOs, which will charge borrowers up to 17 percent interest, as compared to 20 to 30 percent usually charged by for-profit institutions. Overseeing the program is the controversial Salim Saleh, State Minister for Microfinance and brother to President Yoweri Museveni. In 1998, Mr Saleh resigned from a presidential advisory post following allegations that a company in which he was a major stakeholder was involved in an illegal purchase of bank shares. In separate incident, he earned a commission of USD 800,000 purchasing unusable helicopters for the Ugandan army. He was appointed State Minister for Microfinance by his older brother in 2006, with a public warning to not "get into new problems." February 5. 2009

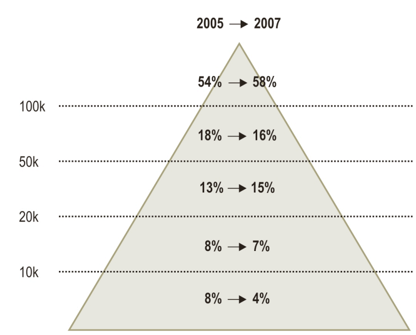
Kenyan Banks Accused of Cheating to Woo Top MFI Borrowers

The *East African* newspaper recently reported that Kenyan microfinance institutions (MFIs) are feeling squeezed by commercial banks, which have begun to offer better terms and looser conditions to the best performing microfinance clients. MFIs may have trouble competing with commercial banks, as they often rely on loans from those same banks and have to mark up the interest rates to cover their costs. Peter Njoroge Karanja, Executive Director of the Kenya Federation of Self Help Associations, has alleged that some commercial banks are capitalizing on inside information they gain when lending to MFIs: "Banks have access to groups' savings portfolio and use the information to determine the most bankable of the groups." February 11. 2009

UK, ADB Back Three Microfinance Funds in Pakistan

The State Bank of Pakistan (SBP) has launched three microfinance initiatives worth a total equivalent to USD 75 million as part of a joint venture with the UK Department for International Development. *Continued on Page 7.*

LATIN AMERICA AND CARIBBEAN
MFI MARKET SHARE TRENDING 2005 TO 2007
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS PAGE 9

THANK YOU from the MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

During 2008, the following organizations supplied tremendous support to our efforts to maintain the candid coverage you have come to expect from us, your microfinance newspaper. Thank you for your readership!

Deutsche Bank

Grassroots Capital

Opportunity International
GIVING THE POOR A WORKING CHANCE

PERFECT POINT PARTNERS
Consultants for Microfinance and Microenterprise

incofin

ACCIÓN

plural
stimulating new markets

HARVARD BUSINESS SCHOOL

gtz

citi

BILL & MELINDA GATES foundation

MICROCAPITAL BRIEFS

Russian Government Investing $830m in SMEs, Microfinance

Continued from Page 1. The Ministry of Economic Development has proposed the distribution of the equivalent of USD 830 million in support of SMEs and microfinance, including USD 28 million specifically for microfinance. Russia's central bank has suggested changing the classification of SME loans on banks' books and reducing reserve requirements on SME loans. The microfinance earmark would establish wholesale lending facilities for microfinance institutions (MFIs) and financial co-ops, with limited funds going to training, rating subsidies and possibly interest rate subsidies on commercial banks' loans to MFIs. The Russian Development Bank also announced plans to lend up to USD 140 million to MFIs and co-ops. February 26. 2009

Calvert Foundation Reports Growth During 2008

The Calvert Social Investment Foundation has announced that its total assets have grown to USD 215 million, including USD 42 million in new sales of its Community Investment Notes during 2008. The Notes allow retail investors to have their funds pooled into a portfolio of loans to 240 nonprofit organizations working in areas such as affordable housing, microfinance and small business development in all 50 US states and 100 countries. February 26. 2009

Pacific Financial Inclusion Programme Accepting Grant Proposals

The Pacific Financial Inclusion Programme (PFIP) is accepting requests for funding to provide high-quality, affordable financial services to low-income households, rural households and micro- and small enterprises in Pacific island countries. Requests may be made for up to USD 1 million through April 15 and will be reviewed on a first come, first served basis. The effort is supported by the United Nations and the European Union. February 26. 2009

Filipinos Fret Over Banks' Use of NGO Subsidiaries

The Bangko Sentral ng Pilipinas (BSP) has begun looking into banks that have established nonprofit arms to offer microfinance services, because NGOs are not covered by capitalization and other regulatory requirements that banks must follow. BSP reports that 230 Filipino thrift, rural and cooperative banks have extended microfinance loans equivalent to USD 135 million to 800,000 borrowers. February 26. 2009

Obama Stimulus Includes $30m for Domestic Microlending

The latest stimulus package announced by US President Obama includes USD 30 million for microloans to be disbursed in the US under the purview of the Small Business Administration. February 26. 2009

Compartamos Reports Results for 2008

Banco Compartamos of Mexico has announced audited financial results for 2008, including the total number of active clients up 38 percent to 1,155,850, total loan portfolio up 37 percent to the equivalent of USD 383 million, net income up 28 percent to USD 75 million and 62 new service offices, for a total of 314. February 26. 2009

Moroccan Microlenders Strategize for Growth

Speaking to the press in February, the Chairman of Morocco's National Federation of Microcredit Associations announced plans to reach more people with microfinance by targeting areas of high poverty, diversifying credit offerings and offering insurance products. The Microfinance Information Exchange lists ten microfinance institutions in Morocco that hold an aggregate gross loan portfolio of approximately USD 700 million. February 26. 2009

Gates Foundation Gives $12.5m for Mobile Banking

The Bill and Melinda Gates Foundation and the European mobile communications organization GSMA have announced a USD 12.5 million effort to support twenty projects in developing countries, with plans to reach 20 million unbanked people with mobile financial services by 2012. February 26. 2009

Consumer Protection Promoted in Pakistan

The Pakistan Microfinance Network has launched a code of conduct for consumer protection and is setting up an external grievance system for the sector. The code is structured around transparency, fair practices, dignified treatment, privacy, governance and client satisfaction. February 26. 2009

Intellecap: Indian MFIs to Build Portfolios to $6b by 2012

Intellecap, an Indian consultancy, has predicted that microfinance institutions in India will build an aggregate portfolio of USD 6.27 billion by 2012, serving 49 million borrowers. February 26. 2009

Russian Delegation Visits Bangladesh to Study Grameen Bank

A Russian delegation recently visited Bangladesh to observe the operations and legal structure of Grameen Bank in hopes of replicating the structure in Russia. "The global financial crisis has affected many small businesses in Russia while the conventional banks are not willing to finance them…", said Deputy Minister for Economic Development Anna Popova in Dhaka City. The Grameen Bank, "village bank" in Bengali, reports 7.7 million borrowers, USD 663 million in outstanding loans and USD 939 million in deposits. February 25. 2009

Microinsurance Network, Munich Re Call for Proposals

The Microinsurance Network (formerly CGAP Working Group on Microinsurance) and the Munich Re Foundation are accepting proposals through May 15 to present at the Fifth International Microinsurance Conference, which will be held in November in Senegal. Areas of interest include: health insurance, linking microfinance and microinsurance, African microinsurance and economic analysis of microinsurance markets. February 24. 2009

CDC Group Invests $30m in Asian and African Funds

CDC Group, a UK-backed fund of funds with net assets of USD 4 billion, has invested USD 15 million each in two microfinance funds. One is the India Financial Inclusion Fund (IFIF), which focuses on rural areas in India and is managed by Caspian Capital Partners. The other is Catalyst Microfinance Investors, which will make placements in greenfield microfinance institutions in India, Pakistan, Nigeria and Ghana. Catalyst is managed by a joint venture between ASA of Bangladesh and Sequoia, a Dutch corporate finance boutique. February 24. 2009

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MicroCapital would like to recognize the individuals at CGAP, the Microfinance Information Exchange (MIX) and the Microfinance Gateway for their outstanding work disseminating information on microfinance. Thank you!

S.E.VEN Fund Awards Grant to MicroRate for Investor Service

The S.E.VEN Fund has awarded MicroRate a grant for its "Improving Flows of Foreign Capital to the Microfinance Industry" investor information service. The rating agency's pilot project seeks to sell market information to investors. The amount of the award was not disclosed. February 24. 2009

Filipino RIZAL to Enter Microfinance With $8m Acquisition

RIZAL Commercial Banking Corporation of the Philippines has announced that it will acquire JP Laurel Rural Bank for USD 8 million to enter the microfinance market. RIZAL will establish a shareholder advance facility which will be infused over three years. RIZAL, known for its remittance services for Filipinos living abroad, reported assets of USD 5.1 billion, return on equity of 12.4 percent, return on assets of 1.4 percent and net interest margin of 5.0 percent for 2007.
February 23. 2009

Standard Chartered Trains Indian MFIs on HR Management

Standard Chartered trained thirty MFI leaders in Hyderabad in February on "Managing Human Capital in a High Growth Industry," the third workshop in the bank's "Managing Growth in Microfinance" series. February 23. 2009

Bahrain Launches $5m Microcredit Bank

The Ibda'a (Creativity) Bank has been launched in Bahrain with USD 5 million raised from UN-affiliated Agfund, Bahrain's private sector and Jordan's Housing Bank for Trade and Finance. February 20. 2009

Deposits Help Cambodia's Microfinance Sector Weather Crisis

Microfinance in Cambodia is expected to weather the current economic crisis with double-digit growth this year, according to microfinance institution (MFI) leaders recently quoted in *The Phnom Penh Post*. Dependence on foreign investors has been reduced since the government of Cambodia permitted MFIs to accept deposits in 2008. International Finance Corporation estimates that 400,000 Cambodians saved nearly USD 423 million during 2008. February 18. 2009

EBRD Loans $3.8m to Poland's Inicjatywa Mikro

The European Bank for Reconstruction and Development (EBRD) is loaning the equivalent of USD 3.8 million in Polish zloty to microfinance institution Inicjatywa Mikro. The loan is accompanied by an unspecified amount of technical assistance funds from the European Commission, as part of a European Union/EBRD effort to support micro- and small enterprises in new EU member states. Affiliated with the Opportunity International network, Inicjatywa Mikro operates seven branches in southern Poland. February 18. 2009

World Bank Proposes 0.7% of Bailouts Go to Poor Countries

Citing estimates for 2009 that the global recession will leave an additional 46 million people to live on less than USD 1.25 a day, World Bank Group President Robert B. Zoellick has called for developed countries to devote 0.7 percent of domestic economic stimulus packages to a fund for safety net programs, infrastructure investments and support for small and medium-sized enterprises and microfinance institutions in poor countries. February 18. 2009

$5m Fund to Buy Equity in Young Indians' Microenterprises

International Finance Corporation (IFC), venture capital firm VenturEast Micro Equity Managers and Bharatiya Yuva Shakti Trust (BYST) are planning to raise USD 5 million to provide equity financing to Indian entrepreneurs aged 18 to 35. So far, the group has mobilized USD 2 million from Industrial Development Bank of India, Small Industries Development Organization and IFC. BYST, which supports young entrepreneurs through mentoring, reports having financed and advised 1,500 entrepreneurs to date, creating employment for 15,000. BYST aims to grow by linking up with the recipients of its services through long-term equity ownership and royalties. February 16. 2009

Jewish Acceder.com Lends Interest-free in Argentina

Acceder has set up a website modeled on Kiva.org to solicit donations to support the interest-free loans it has disbursed in Argentina since 2001, primarily to Jews. Website users can target contributions of USD 25 or more to specific borrowers for purposes such as small businesses, trips to Israel, housing improvement and debt consolidation. When loans are repaid, users may re-loan their "virtual funds," but they may not withdraw their money. Acceder reports having distributed 200 loans worth approximately USD 500,000 during 2008. February 15. 2009

When Will the Consolidation Start?

In its February cover story, the monthly *US Banker* quotes Marge Magner, former head of Citi's global consumer bank: "'There are too many organizations chasing money.' Consolidation would shorten the learning curve in new markets and add efficiency, 'and everybody knows it.'" February 15. 2009

MySME News Brings Information to Entrepreneurs in India, Nepal

A news source called *MySME News* has been launched in Nepal and the Indian states of Karnataka and West Bengal with the goal of reporting business news for owners of micro-, small and medium-sized enterprises. Distribution channels are to include newsletters, mobile messaging and radio. Project partners include Internews Europe, a French funder of community media projects; Plural India, an Indian nonprofit that works to reduce information asymmetries for poor people; and Mahiti Infotech, which provides low-cost information technology to civil society groups. Project director Atul Ramchandra said: "We want to provide very, very local news." February 12. 2009

Oikocredit Grows Portfolio to $466m

Oikocredit, based in the Netherlands, has increased its investment holdings to the equivalent of USD 466 million, including USD 365 million in microfinance institutions that serve 15 million households. It reports that its credit portfolio has not been affected by the recession - "so far." February 11. 2009

Managers Announced for $600m IFC-KfW Fund

Three managers have been announced for the USD 600 million "Microfinance Enhancement Facility" reported in the January 2009 issue of this newspaper. BlueOrchard and responsAbility, both based in Switzerland, and Cyrano Management of Peru will manage the fund, which was previously reported to be aimed at USD 500 million. Launched by the International Finance Corporation (IFC) and German development bank KfW Entwicklungsbank, the fund will provide refinancing at preferential terms to as many as 200 microfinance institutions in 40 countries. Under the plan, KfW will provide a promotional loan of USD 130 million, and IFC will contribute USD 150 million. Additional contributions are being sought. February 9. 2009

LendforPeace.org Brokers Loans from Users to Palestinian MFIs

LendforPeace.org (LFP), a nonprofit internet microfinance brokerage modeled on Kiva.org, aggregates microloans from individuals to partner microfinance institutions (MFIs) in the Palestinian territories. Visitors to LendforPeace.org can direct loans of at least USD 25 to specific Palestinian women, based on their projects profiled on the website. The partner MFIs screen and monitor borrowers, disburse loans and collect payment installments. Interest payments cover the costs of the partner MFIs, and the loans are returned to the LFP user. LFP operates on donations from individuals and philanthropic organizations such as the Clinton Global Initiative, Ashoka Youth Venture, Davis Projects for Peace and the Shurush Initiative. LFP currently partners with Palestinian Business Women's Association (ASALA), which holds a gross loan portfolio of USD 1.8 million, and FATEN, which holds a gross loan portfolio of USD 5.9 million. February 9. 2009

Armored Car Brings Services to Rural Mozambique

A United Nations effort to develop Mozambique's financial infrastructure has disbursed USD 188,000 to Banco Opportunidade de Moçambique (BOM) to establish a mobile bank - in the form of an armored vehicle - to deliver financial services in various rural communities on a weekly basis. Organizers aim to provide financial services to 9,000 people, including discursing loans to 3,000. All capabilities of BOM's information technology system are installed in the mobile bank, including digital fingerprint identification and a cellular link to BOM's central office. February 6. 2009

NCR, FINO to Install 30,000 Smartcard Deposit Machines in India

Financial Information Network and Operations (FINO), an Indian technology company that produces biometric smartcards, and automated teller machine (ATM) manufacturer National Cash Register Corporation (NCR), have unveiled an ATM that uses smartcards. Over the next five years, FINO has committed to rolling out 30,000 machines, which recognize 14 languages. Smartcards, which are electronic passbooks that can hold transaction records and biometric data, such as fingerprints, are especially helpful in serving illiterate customers. With global revenues of USD 4.97 billion NCR claims 70 percent of the ATM market share in India. February 4. 2009

Tanzania's PRIDE Anticipates Deposit License By December

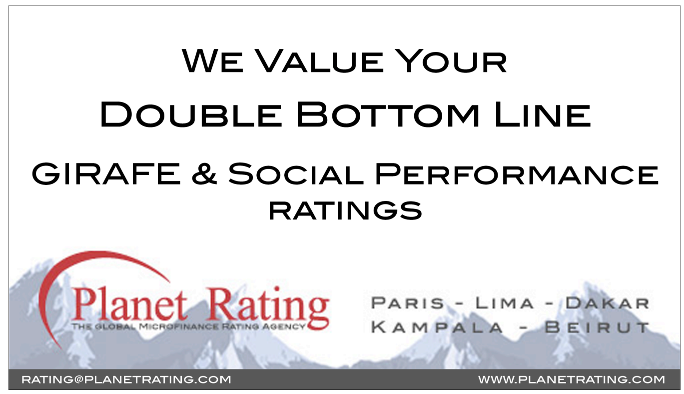
Promotion of Rural Initiatives and Development Enterprises (PRIDE) of Tanzania anticipates securing a microfinance banking license by the end of 2009. Upon receipt of the license, PRIDE will transform into two separate institutions: a nonprofit social service provider and a licensed financial institution. Backed by the Norwegian Agency for Development Cooperation and the Swedish International Development Cooperation Agency, PRIDE reports total assets of USD 34.1 million, a debt-equity ratio of 705 percent, return on assets of 0.41 percent, 82,000 active borrowers and an average loan balance of USD 307. February 4. 2009

Zurich Financial, Women's World Banking to Offer Microinsurance

Zurich Financial Services Group has announced an agreement with New York-based Women's World Banking (WWB) to offer hospitalization insurance to clients of WWB's 54 microfinance providers, which serve 21 million microentrepreneurs. Zurich Financial insures customers in 170 countries worldwide. February 3. 2009

MicroVest Reaches $100m in Assets Under Management

MicroVest Capital Management, LLC has announced that it has surpassed the milestone of USD 100 million in assets under management five years after the launch of its first fund. February 3. 2009



Microfinance as a Tool for Peacebuilding in Colombia

A symposium on "Microfinance as a Tool for Peacebuilding" recently examined how microcredit could help rebuild the economy in post-conflict areas of Colombia. Guillermina Hernandez, Director of a community kitchen, said such programs, "give [the poor] trust to become part of something in a place where people are constantly in danger, and [this] empowers them to follow their dreams." February 3. 2009

ADB's Japan Fund Grants $2m for Microinsurance in Bangladesh

The Asian Development Bank's Japan Fund for Poverty Reduction has approved a grant of USD 2 million for microinsurance in Bangladesh. The grant will fund the training of staff at 20 microfinance institutions, an awareness campaign targeted at 50,000 rural households and the development of low-cost insurance services to protect poor women from accidents, illness and natural disasters. Established in 2000, the Japan Fund holds assets of USD 360 million. February 1. 2009

German Development Agency Trains Yemeni Central Bankers

The German Development Agency (GTZ) has begun a series of twelve microfinance workshops for employees of the Central Bank of Yemen in anticipation of a microfinance law under consideration by the Yemeni Parliament. The 13 MFIs in Yemen serve 31,000 clients, out of a population of 21.6 million. January 30. 2009

20,000 Sign ACCION Petition in Advance of World Economic Forum

As business leaders gathered in Davos, Switzerland, for the World Economic Forum Annual Meeting in January, ACCION announced that its petition calling for the prioritization of microfinance at the conference surpassed 20,000 signatures. January 30, 2009

UK, ADB Back Three Microfinance Funds in Pakistan

Continued from Page 1. The Microfinance Credit Guarantee Facility will guarantee 40 percent of the principal loaned by traditional financial institutions to microfinance institutions (MFIs) to increase liquidity. The Institutional Strengthening Fund will provide grants of up to USD 1 million per year per MFI to strengthen human resources, internal controls and other administrative practices. Improving Access to Financial Services, funded with USD 20 million from the Asian Development Bank, will support MFIs in increasing institutional capacity and providing financial literacy programs. January 30. 2009

Microinsurance Innovation Facility Announces Round 3 of Grants

The Microinsurance Innovation Facility has announced the availability of a third round of grants. The Facility will award several grants - each under USD 100,000 - to help organizations start microinsurance activities or test targeted innovations. The Facility also will support up to five consumer education initiatives that help low-income people make informed choices regarding risk management tools. Applications must be submitted before March 10, 2009. January 29. 2009

Microfinance Gateway Launches New Weekly Bulletin

The Microfinance Gateway is now offering the *Gateway Bulletin*, a free weekly email update on microfinance news feeds, events and publication announcements. January 27. 2009

Bank Indonesia Welcomes Foreign Banks to Microfinance

Bank Indonesia Deputy Governor Mulyanaman D Hadad stated recently that the entry of foreign banks into the microfinance sector in Indonesia will have a positive impact on expanding the reach of financial services and that Indonesian banks should not be concerned. The Indonesian microfinance industry is large, although dominated by the storied governmental Bank Rakyat Indonesia that serves 3.5 million active borrowers. January 27. 2009

Dipal Barua of Grameen Shakti Wins $1.5m Energy Prize

The USD 1.5 million Zayed Future Energy Prize has been awarded to the Managing Director of Grameen Shakti, Dipal Barua, for his work in financing and installing over 200,000 solar panels on the homes of 2 million people in rural Bangladesh. Grameen Shakti, or "Village Energy," is a nonprofit affiliate of the Grameen Bank. Grameen Shakti offers payment plans with terms of up to three years for the panels, which cost around USD 400. The women who market and install the solar panels provide free monthly system checks when they collect installment payments. January 26. 2009

SKS Financing Nokia Mobile Phones in Rural Areas

International mobile phone supplier Nokia is running a pilot project to sell handsets in India through SKS Microfinance and plans to launch mobile information services relating to agriculture, education and entertainment in the rural state of Maharashtra. While mobile phone sales in cities have lagged in India, growth reportedly remains strong in rural areas. SKS reports assets of USD 337 million, a debt-equity ratio of 5.36, return on assets of 2.0 percent and return on equity of 11.95 percent. January 26. 2009

Central Bank Grants License to AccessBank Liberia

AccessBank Liberia has started issuing loans to the public after receiving a formal banking license from the Central Bank of Liberia in January. AccessBank's primary backer is Access Microfinance Holding of Germany, which has committed capital worth the equivalent of USD 27 million and five affiliates in Africa and Azerbaijan. January 26. 2009

Cape Verde Government to Create Microcredit Bank

The government of Cape Verde plans to open a microcredit bank during the first half of 2009 with initial equity equivalent to USD 3.4 million. Portugal's Banco Português de Gestão will hold a 10 percent stake. January 25. 2009

Nigeria Celebrates 840 Microfinance Licenses, Challenges States

The Central Bank of Nigeria (CBN) announced at a recent entrepreneurship awards ceremony that it has licensed a total of 840 microfinance institutions throughout the country. CBN Governor Chukwuma Soludo challenged local and state governments to establish and "mainstream" microfinance programs. Twelve out of 36 states have so far committed the equivalent of USD 63 million as part of a CBN scheme suggesting that one percent of state budgets be allocated to microfinance. January 25. 2009

Pakistan Sets Microfinance Goals to Reduce Poverty

As a part of a new poverty reduction policy, Pakistan has set two goals for the microfinance industry: aggregate lending equivalent to USD 468 million and 3 million active borrowers. January 25. 2009

India's Arman Financial Shifting Core Business to Microfinance

Historically strong in vehicle loans, Arman Financial Services Ltd of India is reportedly planning to enter the microfinance market to serve female entrepreneurs. Initial loans for agriculture, commerce and housing are to be equivalent to USD 100 to USD 200 for each woman in a group of five. Loans will be payable over 50 weeks at an interest rate of 15 percent. Arman reports a total portfolio of USD 4 million, a debt-equity ratio of 1.73, return on assets of 4.1 percent and return on equity of 11.2 percent. January 25. 2009

Report Calls for EU Legislation to Encourage Microcredit

The Economic and Monetary Affairs Committee has made a formal call for the European Commission to encourage the development of microcredit in Europe. January 25. 2009

Fitch Ratings Expects Microfinance Will Be Tested By Crisis

A recent Fitch Ratings report predicts the recession will impact microfinance in terms of liquidity - particularly for non-deposit taking microfinance institutions (MFIs) dependent on local or international wholesale funding - and in terms of lower financial performance caused by lower lending volumes, higher foreign exchange volatility, etc. Mark Young, Managing Director in Fitch's Financial Institutions Group, argues, "Many MFIs will revisit their strategy of commercialisation and transformation…as they experience the downside of convergence risk." January 25. 2009 ♦♦♦

POWERED BY

MICROCAPITAL MARKET INDICATORS | LATIN AMERICA AND CARIBBEAN

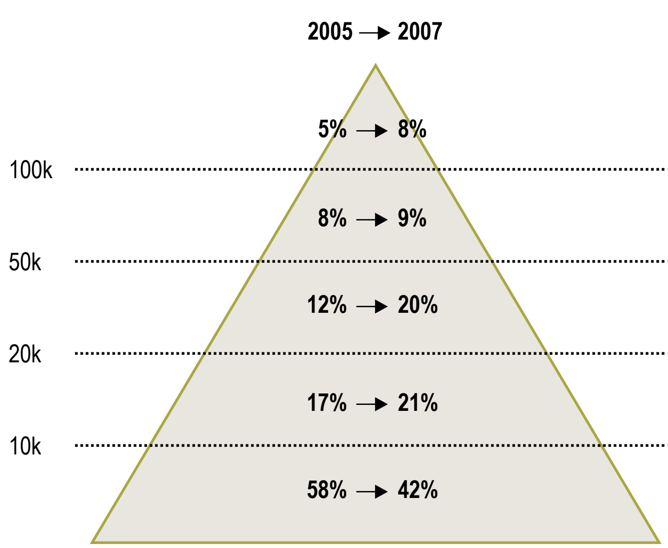
252 MFIs REPORTING FROM 20 COUNTRIES[1]

Argentina, Bolivia, Brasil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Venezuela

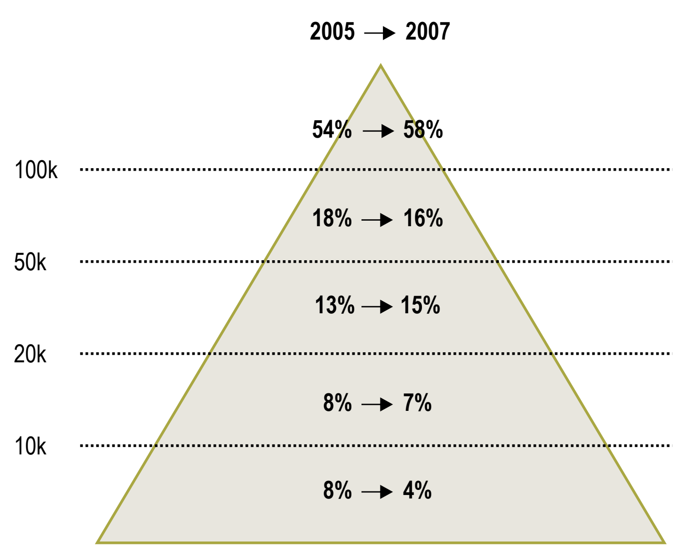
TOP 10 MICROFINANCE INSTITUTIONS (MFIs) BY GROWTH IN GROSS LOAN PORTFOLIO: CHANGE IN USD

MFI NAME	COUNTRY	AVERAGE ANNUAL USD INCREASE	AVERAGE ANNUAL % INCREASE	2005	2007
Banco Caja Social Colombia	Colombia	593,890,048	40.9	1,207,061,504	2,394,841,600
Banco Estado	Chile	213,202,288	44.1	396,425,440	822,830,016
Caja Popular Mexicana	Mexico	182,782,688	21.5	769,442,240	1,135,007,616
MiBanco	Peru	145,887,080	55.5	205,650,736	497,424,896
Caja Libertad	Mexico	110,404,224	27.8	348,598,656	569,407,104
Banco Compartamos, S.A.	Mexico	100,540,208	45.9	178,168,992	379,249,408
CRE$OL	Brasil	67,215,572	70.1	70,969,880	205,401,024
Banco Los Andes ProCredit	Bolivia	61,816,128	36.0	145,599,904	269,232,160
WWB Colombia - Cali	Colombia	60,904,924	48.8	100,407,112	222,216,960
Caja Municipal de Ahorro y Crédito de Arequipa	Peru	57,355,544	36.3	133,625,360	248,336,448

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



MARKET SHARE BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



(1) Denotes only MFIs that report data for 2005 - 2007 to MicroBanking Bulletin (MBB) or MIX Market.
Source: Microfinance Information Exchange, Inc., December 2008, based on MFIs reporting to MBB or MIX Market.

UPCOMING EVENTS

Youth Financial Services: Implementing Good Practices in the Field

March 2 - March 5, Washington, USA

This course provides an overview of both the importance of youth financial services and emerging practices in the field. The registration fee is USD 695. More details are available from Lillian Diaz at Lillian@makingcents.com, +1 202 783 4090 or http://www.makingcents.com/news/youth_financial_services.php.

Second Annual Microfinance Forum

March 19 - March 20, 2009, Vienna, Austria

Uniglobal Research is organizing this forum on how global trends and imbalances affect the microfinance industry, business models for low-income markets, including poor people as investors and producers, common standards for the industry, mobile banking, retail microfinance and micro life insurance. Registration costs the equivalent of USD 2130, including VAT, and is available at https://www.uniglobalresearch.eu/en/event/2009-66/. More information is available via Olha Vyshnevskaya at olha@uniglobalresearch.eu or +420 226 538 100.

Microfinance From Below: The Power of Savings and Savings Groups In Frontier Economies

March 26 - March 28, 2009, Medford, Massachusetts, USA

The Tufts University Fletcher School Of International Affairs is hosting this event to discuss: evidence of the impact of savings groups; links between savings groups and the formal financial system; methods of scaling up and ensuring performance quality; and the integration of savings groups into other development sectors. The conference is sponsored by the Bill and Melinda Gates Foundation and Oxfam America. Registration is required to attend this free event, which runs for two days plus an optional third day. More information is available from Stacy Neal at stacy.neal@tufts.edu or +1 617 627 3700 or via http://fletcher.tufts.edu/mfsavings/.

HBS-ACCION Program on Strategic Leadership in Microfinance

April 13 - April 18, 2009, Cambridge, Massachusetts, USA

Harvard Business School (HBS) and ACCION International are offering this management and leadership training for executives of microfinance institutions, mainstream banks and others in or entering the industry. Leading the program are HBS faculty members V. Kasturi Rangan and Michael Chu. Registration fees begin at USD 5700, with scholarship assistance available. More information is available online at http://www.accion.org/Page.aspx?pid=494 or via Anita Gardeva at agardeva@accion.org or +1 617 625 7080.

Women's World Banking 7th Annual Capital Markets Conference

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

Women's World Banking, with support from J.P. Morgan is offering this event, which includes panel discussions on key topics in capital markets and a competition between select microfinance institutions, which will work with J.P. Morgan staff to generate innovative solutions to current challenges in the microfinance industry. The conference fee is USD 500. For more details visit http://www.swwb.org/node/711 or contact Magaly Arboleda at marboleda@swwb.org or +1 212 768 8513.

Chicago Microfinance Conference

May 8, 2009, Chicago, USA

More details on this conference, subtitled "Navigating the Markets: Microfinance in the New Economy," are expected shortly at http://www.chicagomicrofinance.com/. Updates can be requested at chicagomicrofinance@gmail.com. No telephone number is offered.

Global Microfinance Congress

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

PlaNet Finance and American Conference Institute are hosting this event, which will cover IPOs, exit strategies, case studies and the role of venture capital in microfinance. MicroCapital readers may use service code "SP2" to qualify for a discounted rate of USD 1095. More information is available via +1 888 224 2480, +1 212 352 3220, CustomerService@AmericanConference.com or http://microfinancecongress.com/.

Fourth Annual Underbanked Financial Services Forum

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

The Center for Financial Services Innovation and SourceMedia present this event featuring 50 speakers from the banking, regulatory, nonprofit, credit union and private equity sectors. Registration fees range from USD 595 to USD 1395, but will increase March 27. More details are available via abconferences@sourcemedia.com, +1 212 803 6093, or http://www.sourcemediaconferences.com/ CFSI09/reginfo.html.

First European Research Conference on Microfinance

June 2 - June 4, 2009, Brussels, Belgium

Organized by the European Microfinance Platform and the Centre for European Research in Microfinance (CERMi), this event aims to provide researchers with an opportunity to present their work and exchange ideas with international colleagues. The registration fee is EUR 200 until April 30, with discounts available for academics and attendees from southern countries. Details are available at http://www.microfinconf.eu/ and from Petra Solli via cermi@ulb.ac.be or +32 2 650 6601.

Latin America - Caribbean Regional Microcredit Summit

June 8 - June 10, 2009, Cartagena, Colombia

This is the latest of the Microcredit Summit Campaign's events for those working to assist poor people in reaching financial self-sufficiency. The fee to attend is USD 300, with discounts available for registrations before March 15 and for those attending from the Latin American region. Add-on field visits and courses are also available for an extra fee. Details are posted at http://www.regionalmicrocreditsummit2009.org/, and questions may be directed to info@microcreditsummit.org or +1 202 637 9600.

Microfinance Principles

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

Microfinance Institution Management

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

Commercial Micro Banking

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

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

Asia Insurance Review Microinsurance Conference

July 22 - July 23, 2009, China

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

ALERT: We have loads of paper wrap-ups in the pipeline, so expect a SPECIAL PAPER WRAP-UP ISSUE in March!

PAPER WRAP-UPS

CGAP 2008 Microfinance Investment Vehicles Survey – Main Findings

Published by CGAP (Consultative Group to Assist the Poor), September 2008, 15 pages, available at: http://www2.cgap.org/gm/document-1.9.5571/20080915CGAP%20MIVs%20Benchmark%20final.pdf

Microfinance investment vehicles (MIVs) are private investment funds that act as financial intermediaries between foreign investors and microfinance institutions (MFIs). Most MIVs are very small in size, with 86 percent of MIVs having less than USD 20 million under management. As of September 2008, CGAP (Consultative Group to Assist the Poor) identified 91 active MIVs, with total assets under management amounting to USD 5.4 billion. CGAP surveyed 58 of these, which manage aggregate assets of USD 4.7 billion. The survey reveals an increase in the average total assets of MIVs from USD 66 million in 2006 to USD 81 million in 2007. Although the preferred instrument of MIVs is still debt, which comprises 78 percent of total microfinance portfolios, equity investments increased by 95 percent from 2006 to 2007.

CGAP categorizes the surveyed MIVs into seven peer groups, with survey results disclosed for each group:

Registered mutual funds: Organizations that seek money market returns - primarily from fixed income investments - and are regulated by market authorities

Commercial fixed income investment funds: Private investment companies seeking returns from fixed income investments that are not subject to market regulation

Structured finance vehicles - passively managed: Organizations whose assets include only a static pool of fixed income investments; the fund managers make as few portfolio decisions as possible in order to minimize transaction costs

Structured finance vehicles - actively managed: Organizations which include mainly fixed income investments and which are actively managed with the goal of exceeding certain investment benchmarks

Blended value funds: Funds generally managed by nonprofit organizations. They provide debt and equity finance for MFIs, offering below market returns to socially focused investors

Private equity funds: Funds which are driven by commercial organizations with a strong development agenda and which provide mainly equity finance

Holding companies: These are companies which provide mainly equity and technical assistance to start-up microfinance banks

Please refer to page 14 of the survey for a detailed list of MIVs in each group.

In terms of average total assets, actively managed structured finance vehicles recorded the highest balance, with approximately USD 150 million; followed by registered mutual funds, with approximately USD 103 million; and blended value funds, with USD 80 million. From a growth perspective, commercial investment funds registered the highest growth in 2007 with 241 percent, followed by registered mutual funds at 113 percent and private equity funds at 109 percent. While debt is still the preferred instrument for passively managed structured finance vehicles (comprising almost 100 percent of the microfinance portfolio), equity is the preferred instrument for private equity funds and holding companies (comprising nearly 85 percent of total microfinance portfolio). Please refer to page 7 of the survey for a more detailed analysis.

Shedding Light on Microfinance Equity Valuation - Past and Present

By Nicholas P. O'Donohoe, Frederic Rozeira de Mariz, Elizabeth Littlefield, Xavier Reille, and Christoph Kneiding, published by CGAP (Consultative Group to Assist the Poor), February 2009, 40 pages, available at: http://www2.cgap.org/gm/document-1.9.9021/OP14v3.pdf

This paper is an empirically grounded analysis of how financial valuation methods are applied by external actors to microfinance institutions (MFIs) and other lending institutions with poverty alleviation goals. This is made possible by CGAP's (Consultative Group to Assist the Poor's) data on 144 private equity transactions, the largest such dataset gathered to date, as well as information on ten MFIs and other low-income focused lenders that have raised funds by issuing securities.

Investor Interest and Constraint

Equity investment in MFIs, whereby the organization injecting funds takes an ownership stake in the future profits of the MFI, has been limited to date compared to debt financing, whereby an investor extends a loan to a MFI that leaves no ownership claim after repayment. At the same time, interest has been growing markedly in the former approach. There were 24 specialized microfinance equity funds with total assets of USD 1.5 billion under management at the end of 2008, while institutional investors such as pension fund Stichting Pensioenfonds ABP, a pension fund for Dutch government workers, have made microfinance equity allocations of over USD 100 million as part of socially responsible investment strategies. Likewise, well-known private equity houses Sequoia and Legatum have made significant forays.

However, a major limitation to drawing in equity to MFIs has been the lack of organized secondary markets (i.e. stock exchanges) for microfinance securities, meaning that an investor which places money into an MFI cannot then sell its ownership claim to another party with ease. Indeed, only two MFIs are actively traded in secondary markets. Equity Bank of Kenya is listed on the Nairobi Stock Exchange, while Mexican bank Compartamos is traded over-the-counter between stock dealers in New York and Mexico City. Consequently, most equity investment in MFIs has been undertaken through private placements - investors going straight to the receiving institution and negotiating an ownership claim on future profits in exchange for a fixed sum of money. The study therefore principally looks at how the valuation process works in these instances, although it offers some insights into public MFIs as well.

Core Findings

MFIs will be affected by the global financial crisis, but remain fundamentally sound. Specifically, MFIs will be hurt by higher interest rates on funds that they borrow from other financial institutions to on-lend to microentrepreneurs, and in turn their valuations by outside investors looking to provide equity financing will be diminished as MFI profitability temporarily declines. Nonetheless, their robust performance will keep operational credit flowing and, in the long term, raise their valuation numbers once the high cost of such capital comes down.

There is a lack of consensus over the value of MFIs amongst private equity firms looking to make equity placements. The need to project highly volatile streams of future profits, along with occasionally weak or non-standard accounting practices is a major contributor to this valuation diversity.

Publicly listed low-income financial institutions (LIFIs) - which in many ways mimic the goals and operations of MFIs - were aggregated into a securities index. It outperformed a broader index of global financial institutions by 238 percent since 2003. However, the difference has been just 8 percent since September 2008, when investment bank Lehman Brothers collapsed.

When making valuations, investors should consider five factors which differentiate MFIs from traditional banks: a double bottom line approach (painted as potentially distracting from profitability), high net interest margins, excellent asset quality, high operating costs (due to greater lending scrutiny) and longer term funding available from development investors.

The authors argue in favor of absolute valuation methods which include a projection of an MFIs future income, rather than simpler relative valuation methods that only consider the present performance of an MFI.

MFIs, when added to broader investor portfolios, can hedge against market risk as their performance is robust to economic cycles. At the same time, inability to easily sell microfinance equity holdings to other parties means the value of such investments should be marked down for liquidity risk.

Net income growth and transaction size are the main drivers of valuations. That is, investors consider both how fast an MFI is generating new profitability, as well as how their own equity injections will help an MFI achieve its strategic goals.

The final two major sections of the report are detailed surveys of private equity placements involving MFIs and public transactions involving MFI-type entities.

The sample involves transactions that occurred between January 2005 and September 2008 - ending before the recent credit crisis came into full force. While private equity valuations ran from 1.3 to 1.9 times historical price-to-book and 7.2 to 7.9 historical price-to-earnings during the period, there is reason to believe that such multiples will diminish significantly in the wake of the current recession. While imperfect corollaries to MFIs, valuations for listed emerging market banks are down roughly 50 percent since Lehman Brothers' bankruptcy, and the authors believe that over the next year a matching price-to-book value in any private equity action would not be unreasonable. At the same time, the robustness of the microfinance industry makes recovery all but certain once wholesale capital again begins to flow, and hence valuations should rebound in turn. Consequently, planned initial product offerings by MFIs in 2008 have been put off, as these organizations would clearly be ill-advised to give away equity on the cheap.

More specifically, while expectations about income are a major determinant in the valuation process, current profitability in terms of return on equity does not translate well to present price-to-book values for MFIs. Simply put, there is no clear link between present profitability and present valuation. There are also significant regional disparities. The African MFIs studied, despite having a negative return on equity, exhibit a decent markup factor in price-to-book value of 1.5. Meanwhile, Indian deals have price-to-book factor medians of 6.7, in part due to pent up demand for funds in India, and also due to exuberance over the long term outlook for the nation's MFIs. Likewise, historical price-to-earnings multiples and net income growth move together in the expected direction, the former rising with the latter, but idiosyncratic regional differences remain.

The degree of leverage has inconclusive effects, while the debt-equity ratios of the MFIs has no effect whatsoever. A number of other factors such as MFIs' ages, rates of delinquent loans, legal status, etc. were also considered, yet theoretical predictions were either inconclusive or not born on by the empirical analysis. That said, transaction size does matter - investors clearly consider the extent to which their own capital can increase the bottom line of the MFI. To summarize, the authors find that, in the private equity arena, net income growth and transaction size are the key drivers of valuation.

LIFIs provide financial services to the poor (consumer and microenterprise loans, payments, and insurance), but do not necessarily have a double bottom line in mind. The authors identified ten listed LIFIs with a broad microfinance focus, on the grounds they are comparable to traditional MFIs from an operational perspective. The group included two publicly listed MFIs (Compartamos in Mexico and Equity Bank in Kenya), four banks with an emphasis on small-to-medium enterprise and microenterprise lending and four consumer lenders.

They then created a weighted Low-Income Finance Index including six of these organizations. The authors found that the Index traded at a premium - on a price-to-book basis - compared to traditional banks up until late in 2007, when a decline began which leads to a forecasted discount of 22 percent in 2009. This decline in valuation embodies the sharp reversal in the performance of the Index compared to the MSCI World Financials Index, falling from 238 percent stronger to just 8 percent above in late 2008. Therefore, on the whole, while publically traded LIFIs outperform traditional banks, their success has been battered by the onset of broader capital markets turmoil starting as far back as 2007.

Likewise LIFIs, when disaggregated, outperformed their own national banking sectors. However, the authors contribute part of this success to the scarcity of IPO's involving LIFIs, despite tremendous investor interest. Outliers include Mexican microfinance institutions Compartamos and Independencia, which have underperformed, yet at the same time they are over 66 percent composed of foreign holdings and hence are subject to greater volatility.

Finally, turning to the matter of listings, the authors note that operations do not appear to be systematically affected. Loan issuances do not always expand rapidly, nor are net interest margins increased by cheaper capital as LIFIs try to gain market share by lowering lending rates. Conspicuously, 85 percent of total capital raised in microfinance IPO's goes to early investors who in turn use the funds to exit their positions. Effectively, new equity substitutes for the old, which may explain the mitigation of operational changes.

The State of the Microcredit Summit Campaign Report 2009

By Sam Daley-Harris, published by the Microcredit Summit Campaign, January 2009, 70 pages, available at: http://www.microcreditsummit.org/SOCRs/SOCR2009_English.pdf

The report discusses the human face of global poverty, reviews microfinance breakthroughs in helping slum dwellers move out of the slums and highlights innovations that have brought renewable energy to poor communities. The report is a summary of the achievements and innovations of the Microcredit Summit Campaign for the year 2008 - as well as notable achievements in the microfinance community in general - and consists of contributions from a variety of experts in the microfinance industry.

At the end of 2007, 3,552 microfinance institutions (MFIs) reported reaching over 154 million clients, 106 million of whom were among the poorest when they took their first loan. Loans to the 106 million poorest clients affect a total of 533 million people, including family members. As a part of the 2007 Microcredit Summit Campaign, MFIs were asked for the number of clients who have crossed the USD 1 per day income threshold. These findings will be reported beginning in next year's report.

The Microcredit Summit Campaign stresses that microfinance is just one of the tools needed to end global poverty and that the mere availability of financial services must be accompanied by other supportive services. A transformation in the provision of development and financial services is required. New rule-breakers have emerged to defy the traditions of commercial banking, but also to break the rules of microfinance itself. Their innovations are leading to breakthroughs in other areas of development in their quest to find better ways to use microfinance to end poverty. The report highlights the achievements of Jamii Bora, an MFI based in Kenya, which provides loans to beggars, prostitutes, thieves and others normally excluded from microfinance, while the staff consists exclusively of clients and former clients.

Grameen Foundation President and CEO, Alex Counts wrote an article entitled "Re-imagining Microfinance", which was published in the *Stanford Social Innovation Review* in 2008, calling for microfinance to serve as a platform and not as a product. This platform could be used to deliver a host of products and services to the world's poorest, most isolated people. He suggests that the most important assets of MFIs are not their loan portfolios but their relationships with the world's poor, which can be leveraged to develop and distribute financial and non-financial products and services. The article also challenges MFIs to lower interest rates once service costs have been reduced, as well as adopting a business model based on conducting many marginally profitable transactions, rather than fewer highly profitable ones.

Grameen Shakti is an example of using microfinance as a platform; it sells, finances and services renewable energy systems throughout Bangladesh and is reducing carbon emissions by 90,000 tons per year by providing solar home systems to rural people. It plans to create 100,000 "Green Energy Entrepreneurs" by 2015.

The Microcredit Summit Campaign has also been working with Freedom from Hunger to promote the integration of microfinance and health education, launching a 15-month pilot project in southern India with support from Johnson & Johnson, a major US corporation. The pilot project involved four institutions training local people, who in turn trained 100 of these organizations' field workers, who then delivered health lessons to over 15,000 clients on HIV/AIDS prevention and care, managing childhood diseases and women's health.

While the debate on the commercialization of microfinance is often reduced to whether or not MFIs should be profitable, the Microcredit Summit Campaign argues that no serious actor in this field proposes unsustainable MFIs and that the debate is actually centered around the issue of profit-maximization at the MFI level versus a more holistic measurement of success, which includes MFI profitability as well as improvements in the socio-economic conditions of clients.

Dr. Steven Funk of Unitus writes that commercial investment in microfinance must be seen as an integral part of the equation in order to reach all of the people who need access to microcredit loans. He suggests that resources from private philanthropy and the public sector are not capable of growing on the scale required to reach all of the world's poor and that those involved in microfinance must be open to the "critique of commercial capital's investment motives."

Chuck Waterfield, founder of Microfinance Transparency, writes that the true price of microfinance loan products has never been accurately measured or reported. Microfinance loans, contrary to commercial loans, can quote an interest rate of three percent a month which results in an APR between 36 percent and 96 percent, depending on how this rate is applied. The same principles of transparent pricing applied within the commercial finance industry have not been applied to the microfinance industry. There has been intensive dialogue on this issue, and initiatives have been created in order to address non-transparent pricing, including the "Campaign for Client Protection" which began in April 2008.

In response to a lack of investment in microfinance in Africa and other extremely poor regions, 1,400 parliamentarians around the world wrote letters to the World Bank asking it to ensure that the growing commercialization of microfinance does not result in the poor being left behind. These letters have emphasized three actions: creating a USD 200 million annual grant facility to build MFIs' capacity to reach clients living on less than USD 1 per day, establishing three regionally based "centers of excellence" that demonstrate success in reaching the very poor and creating a regional apex fund in Africa to encourage the expansion of successful pro-poor MFIs in the region.

Phase II of the Microcredit Summit Campaign was launched in 2006 with two new goals for 2015: (1) working to ensure that 175 million of the world's poorest families are receiving credit for self-employment and other financial and business services and (2) working to ensure that 100 million of the world's poorest families move above USD 1 of income per day, adjusted for purchasing power parity and using a starting point of 1990. These new goals were established to contribute toward achieving the Millennium Development Goal of cutting absolute poverty in half by 2015. ♦♦♦