JULY 2009 | VOLUME.4 ISSUE.7

MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

MICROCAPITAL BRIEFS | TOP STORIES

Editorial: Why They Keep Telling Us What We Already Know

Please refer to page 8 for commentary on the impact of microfinance on poverty.

Sri Lanka Plans $26m in Microloans to Rebuild War-Torn North

In an effort to resettle 300,000 Tamil people displaced by ethnic conflict in the northern part of the country, the Sri Lankan government has launched a USD 26 million microfinance loan program to spur agriculture and business in the region. The Central Bank of Sri Lanka will disburse the funds at a concessionary rate of 6 percent interest to “participating financial institutions,” including the Bank of Ceylon, People’s Bank, Hatton National Bank, Commercial Bank, Seylan Bank and SANASA Development Bank. Loans will be limited to the equivalent of USD 1740, with an interest rate of 12 percent for five years. July 16. 2009

Leapfrog Fund Raises $44m for Microinsurance

The LeapFrog Financial Inclusion Fund has raised USD 44 million, which it will invest in microinsurance in Africa and Asia. Investors include the European Investment Bank, Fiduciary/Claymore Opportunity Fund, Omidyar Network, Triodos-Doen Foundation, Hivos-Triodos Fund, ACCION International, Calvert Large Cap Growth Fund, wealth manager Felipe Medina and LeapFrog insiders. June 19. 2009

Nigeria’s PS Microfinance Bank is Sham, Deposits Disappear

Nigeria’s PS Microfinance Bank Limited has closed abruptly, according to local newspaper *The Guardian,* resulting in estimated depositor losses worth tens of thousands of US dollars. After collecting money from a large number of traders in the Akute region, bank officials are said to have closed down their offices and “gone into hiding.” The relevant department of the Central Bank of Nigeria has no record of a license held by or any application for a license by PS Microfinance Bank. A central bank official suggested that, prior to transacting with a bank, customers should request to see the bank’s license. July 14. 2009

MFX Solutions Launches Microfinance Hedging Operations

MFX Solutions Inc, based in Washington, DC, has launched its microfinance currency risk hedging operations, which aim to make hedging instruments more accessible to microlenders in high-risk markets. The company is backed by ACCION International, Calvert Foundation, Calmeadow Foundation, MicroRate and Global Partnerships, among others. In its first round of financing, MFX secured USD 13 million from 17 investors, including USD 9.3 million from the Omidyar Network. MFX’s strategy relies on a partnership with the USD 600 million Currency Exchange Fund, an initiative of Dutch development bank FMO and the Dutch government, which will allow MFX to offset its own currency risk. July 9. 2009

INSIDE Page

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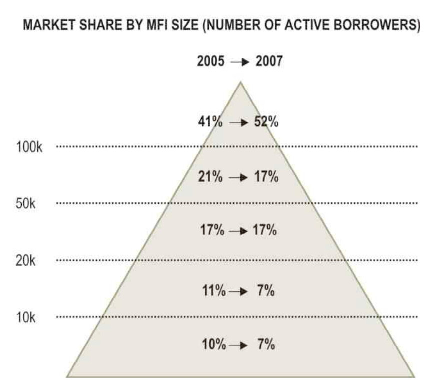
SUB-SARAHAN AFRICA
MFI MARKET SHARE TRENDING 2005 TO 2007
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS PAGE 11

MICROCAPITAL BRIEFS

Centenary Bank of Uganda Lends to Farmers

Centenary Bank of Uganda, a commercial bank with a focus on rural microfinance, has announced that it will target farmers owning 100 acres of land with loans up to the equivalent of USD 95,000. This will be facilitated by access to a USD 14.2 million loan guarantee authorized by the Ugandan government to stimulate the economy. Centenary will also seek to access part of a EUR 30 million credit facility that the European Investment Bank is extending to several Ugandan commercial banks. Centenary reports a gross loan portfolio of USD 151 million and 92,611 active borrowers. Current shareholders include the Catholic Dioceses (39 percent), the Uganda Catholic Secretariat (31 percent), Stichting Hivos-Triodos Fonds (18 percent) and the French bank International Solidarity for Development and Investment (11 percent). July 22. 2009

Filipino Microfinance Groups Agree to Promote Client Protection

The Rural Bankers Association of the Philippines, the Microfinance Council of the Philippines and ACCION International have agreed to partner to protect the rights of financial institutions' microfinance clients. The effort is part of a project to collect information on consumer protection guidelines and their implementation in several countries worldwide. July 21. 2009

Kiva to Fund ACCION USA Loans

ACCION USA has joined online loan intermediary Kiva's expansion in the US. Funds raised by Kiva - in amounts up to USD 10,000 per borrower - will back loans of up to USD 50,000 that ACCION USA issues to business owners in the US. July 21. 2009

Audit to Follow Alleged Fraud at Uganda's Lira Women SACCO

Following complaints of fiscal mismanagement at the Lira Women Savings and Credit Cooperation Society, a special team of auditors will be sent to examine its accounts. The audit follows accusations from Mary Alany, Lira's secretary general, that Lira chief executive Dolly Omolo Okullo improperly gave jobs to family members and misappropriated the equivalent of USD 520,000. Ms. Alany called for "urgent intervention" to rescue the institution before it "collapsed." July 20. 2009

ILO Microinsurance Innovation Facility Opens New Grant Round

The International Labour Organization's Microinsurance Innovation Facility is accepting research grant proposals through October 30. Requests may be made for up to USD 50,000. July 20. 2009

New Rating Agency in India

SME Rating Agency of India Limited, a joint initiative of the Small Industries Development Bank of India (SIDBI), Dun & Bradstreet Inc and several public and private sector banks, has launched a service that will assess the financial and social performance of microfinance institutions in India. The SIDBI Foundation for Micro Credit has previously commissioned ratings from other rating agencies. July 20. 2009

Reserve Bank of Fiji to Review Microfinance Regulations

Reserve Bank of Fiji (RBF) Governor Sada Reddy has announced that RBF will review the regulatory framework for microfinance development in Fiji and work with commercial banks to introduce rural banking services. This follows an April 2009 directive from RBF that all banks set up specialized microfinance services by January 2010. July 20. 2009

Malaysia Allows International Banks To Provide Microfinance

The *Malaysian Star* newspaper has reported that the Malaysian Ministry of Finance has begun allowing international banks to open as many as ten branches each to provide microcredit. The change was approved in late 2008 as part of an economic stimulus package. Finance Minister Datuk Seri Ahmad Husni Hanadzlah characterized the move as a boost to the "Tekun" fund for small, rural business that was recently bailed out with funds equivalent to USD 42 million. July 20. 2009

Cambodian MFI Loan Volume Down in First Half of 2009

The number of loans extended to clients by microfinance institutions (MFIs) in Cambodia declined during the first half of 2009, according to the *Phnom Penh Post*. MFIs reported that they are being more cautious in their lending and clients are more nervous about taking out loans. The rate of non-performing loans (NPLs) also increased during the period, and the Cambodian Microfinance Association (CMA) has forecast that this rate will increase to three percent by the end of 2009. One Cambodian MFI, Amret, reported an NPL rate of 2.8 percent for June 2009, as compared to 0.08 percent for December 2008. PRASAC, another MFI, reported a reduction in clients from 100,000 to 87,700. A third MFI, SATHAPANA, reported that its loans of USD 22 million were one third below target. As of March 2009 CMA reported 18 member MFIs with a total of 828,000 borrowers, 105,000 savers and loans outstanding of USD 275 million. July 16. 2009

IFC, EIB Create Emerging Markets Risk Database Consortium

The International Finance Corporation (IFC) and the European Investment Bank (EIB) have agreed to create a Global Emerging Markets Risk Database Consortium to pool loss and credit-risk data such as default and recovery rates. The European Bank for Reconstruction and Development, the African Development Bank and the Inter-American Development Bank are also expected to join the effort. The data is structured to keep the counterparts' identities anonymous. IFC's new investments totaled USD 16.2 billion in 2008, and EIB's aggregate loans in 2008 were worth the equivalent of USD 489 billion. July 14. 2009

Nigerian Association to Promote Common Software for MFIs

The Lagos State Association of Microfinance Banks has entered into a partnership with Probank, a Greek banking group, to design a common software platform for all microfinance banks in Nigeria. A primary goal of the software system is to facilitate the clearing of cheques among microfinance institutions (MFIs). Other initiatives of the Lagos State Association include working to improve equity funding for MFIs and to look into cases of distressed MFIs, of which there have been several lately. July 13. 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!

Grameen, Google, MTN Uganda Launch Mobile Services

A suite of mobile phone applications developed with Google, Grameen Foundation and MTN Uganda will deliver services and information in Uganda. Telecom operator MTN Uganda, a unit of South Africa's MTN Group, will provide communications infrastructure and local marketing support. The services are based on SMS (text messaging) technology, which works with basic mobile phones. The service allows individuals to use either their own mobile phone or a shared mobile phone to access information relating to agriculture, healthcare and market information that can match buyers and sellers of agricultural or other products. July 13. 2009

Special Report on "Investments In Microfinance" Conference

Please see MicroCapital.org for our series of three reports on the "Investments In Microfinance" conference organized by Hanson Wade in London this month. The series covers client protection, foreign currency risk and much more. July 9 and July 10. 2009

Filipino Government Touts Outcomes

A recent report indicates that loans worth a total of USD 3.3 billion have been made to 5.8 million microfinance clients since 2004. Loans made during 2008 totaled USD 1.3 billion, while those from January to April 2009 totaled USD 201 million. July 9. 2009

Small Business Trust of Guyana Partners with IFC

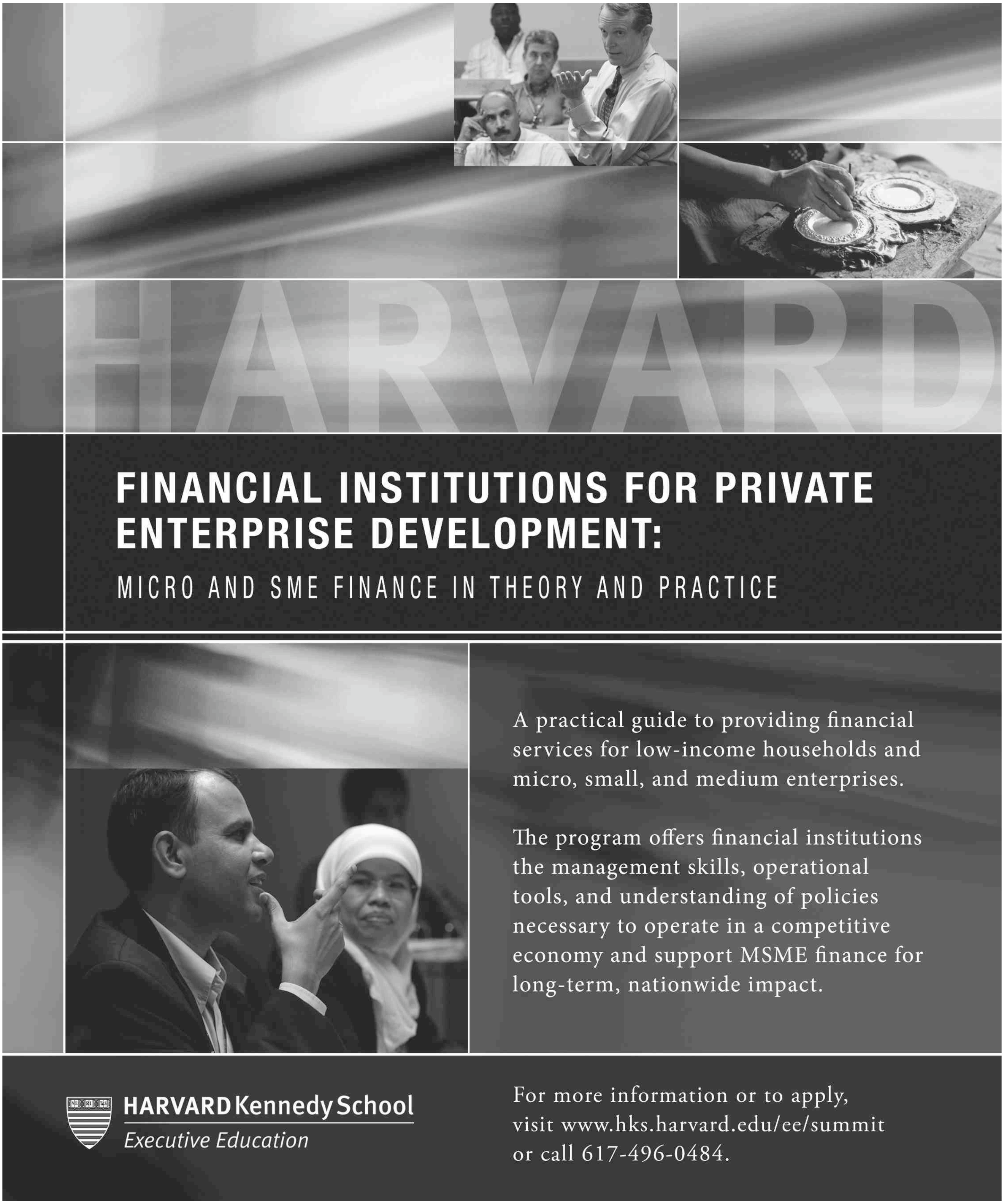
The nonprofit Small Business Development Finance Trust (SBDFT) of Guyana funded 540 micro- and small loans worth the equivalent of USD 711,046 during 2008. In April 2009, SBDFT was approved to receive a senior convertible loan of USD 300,000 from the International Finance Corporation, which is working with SBDFT management to formalize its operations. July 9. 2009

India Appears Ready to Pass Long-Awaited Microfinance Bill

The *Business Standard* newspaper reports that India's Council of Ministers will soon approve the 2009 Micro Financial Sector Bill, a revival of a bill that was originally tabled in 2007 by the lower house of Parliament. The 2009 bill aims to create an environment allowing "universal access" to integrated financial services with a particular emphasis on various groups, including women. Key provisions of the bill include: enforcing stricter accounting standards, allowing societies and trusts to accept public deposits, creating an ombudsman to settle disputes between clients and microfinance organizations, requiring deposit-taking institutions to establish a reserve fund using 15 percent of net profits and creating a microfinance equity and development fund. July 8. 2009

EFSE Loans EUR 5m to ProCredit Bank Albania

ProCredit Bank Albania has received a loan equivalent to USD 7.1 million from the European Fund for Southeast Europe (EFSE), a microfinance fund based in Luxembourg. Forty percent of the loan is earmarked for energy efficiency housing loans, with the remainder aimed at small-scale agricultural clients. For 2007, ProCredit Bank Albania reported 32,581 active borrowers, 198,668 savers, total assets of USD 354.7 million, a gross loan portfolio of USD 161.5 million, return on assets of 1.6 percent and return on equity of 20.53 percent. The bank's parent, ProCredit Holding, reports 2008 assets under management of USD 1 billion. As of March 2009 EFSE held USD 706 million in assets, of which USD 393 million was allocated to microfinance. July 8. 2009


HARVARD
FINANCIAL INSTITUTIONS FOR PRIVATE ENTERPRISE DEVELOPMENT:
MICRO AND SME FINANCE IN THEORY AND PRACTICE
A practical guide to providing financial services for low-income households and micro, small, and medium enterprises.
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Reconstruction in Georgia Gets Push from $2.6m Grant

Constanta Bank and six microfinance institutions (MFIs) - Lazika Capital, Alliance Group, CREDO, Crystal, FinAgro and FINCA Georgia - have been selected to receive grants totaling USD 2.6 million from the United Nations Development Program and the European Union. The funding is for making microfinance loans in the Shida Kartli, Samegrelo-Zemo Svaneti and Mtskheta-Mtianeti regions of Georgia, which were affected by the August 2008 war. Loans must range from the equivalent of USD 120 to USD 6,000, with 75 percent of the loans going to rural areas and 45 percent to women. July 7. 2009

Gambia Focuses on Microfinance

At a recent event sponsored by the Gambia Association of Accountants, it was reported that the microfinance department of Gambia's central bank is currently working to produce a governance framework and a manual of operational guidelines. The changes will include tighter capital reserve requirements. July 3. 2009

Rizal of the Philippines to Expand Microfinance Operations

The Rizal Commercial Banking Corporation (RCBC) has announced that it plans to grow its microfinance operations by acquiring rural banks. RCBC president and chief executive Mr Lorenzo Tan said that, "We're looking to expand microfinance, and we started this month. It can contribute five to ten percent to our bottom line in five years." The central bank has ordered that no further branches be opened in Manila, so RCBC must acquire banks if it wishes to expand. For 2007, it reports consolidated assets equivalent to USD 4.98 billion, return on assets of 1.4 percent, return on equity of 12.4 percent and loans totaling USD 2.2 billion. July 2. 2009

M.J. Murdock Grants $180k to Support Global Partnerships MIVs

Global Partnerships has received a USD 180,000 grant from the M.J. Murdock Charitable Trust to manage its investments in Latin American microfinance institutions. July 2. 2009

Mobile Money Provider Mi-Pay Partners with Small World

Mi-Pay, a mobile money company based in the United Kingdom, has recently partnered with money transfer provider Small World Financial Services to offer global money transfer functionality and international prepay phone top-up in 30 countries. Mobile phone top-up is a service that allows a customer in one country to buy airtime for someone in a different country. Mi-Pay also announced that it has extended its Globaltopup service to India's top five cellular operators, which cover 89 percent of cellular subscribers on the sub-continent. June 30. 2009

Islamic Solidarity Fund Reports on $500m Microfinance Fund

The Islamic Development Bank's Islamic Solidarity Fund for Development (ISFD) has released its first annual report, which focuses on establishing procedures and developing guidelines for its operation. The original target of the fund was USD 10 billion, with USD 2.61 billion having been pledged through 2008. ISFD has budgeted USD 500 million for its Microfinance Support Program. June 30. 2009

CRDB Microfinance Services of Tanzania Reports Profit

Tanzania's CRDB Microfinance Services Company (CRDB MF) has reported a 2008 pre-tax profit of USD 192,000, loans disbursed totaling USD 36.6 million and outstanding loans of USD 44.1 million. CRDB MF does not directly lend to clients, but works with 376 partner institutions - such as savings and credit cooperative societies - to disburse loans and provide technical support. CRDB MF is a division of CRDB Bank, a private commercial bank whose largest stakeholder is the Danish International Development Agency. June 30. 2009

Why Business Training Should Accompany Loans

A recent *New York Times* article on programs that train poor people to run their own businesses reports that, "Interest in these programs has grown lately with the wider availability of microloans…. 'There's been a realization in the microfinance community that loan recipients are more likely to succeed if they also receive business education,' said Bobbi L. Gray, research and evaluation specialist with Freedom From Hunger…. 'Even those who reported having the least interest before getting the training had higher revenues,' said Dean Karlan, a professor of economics at Yale [who studied the issue in Peru]…." June 30. 2009

AccessBank Tajikistan Established with Capital of $11m

Several international finance organizations have invested USD 11 million in a new microfinance institution, AccessBank Tajikistan, including Access Microfinance Holding AG which will hold a 50.5 percent stake. Minority stakeholders include the International Finance Corporation, the European Bank for Reconstruction and Development and Kreditanstalt fuer Wiederaufbau (KfW). Since its inception in August 2006, Access Microfinance Holding has invested in four microfinance banks: AccessBanque Madagascar, AccessBank Azerbaijan, AccessBank Tanzania and AB Microfinance Bank Nigeria Limited. June 30. 2009

The Impact Of Microfinance On Child Labour in Pakistan

A recent article in *The Nation* newspaper covers an unpublished State Bank of Pakistan study entitled "Towards Achieving Social and Financial Sustainability - A study on the performance of microfinance in Pakistan." The study indicates that the provision of microcredit has had only a limited impact on the reduction of child labour. Such reductions are greater where microcredit is combined with other services such as child education, health education and explicit efforts to mobilize families against child labour. June 29. 2009

Microinsurance Schemes Flooding Into Market?

In a recent article in Dubai newspaper *Khaleej Times*, senior World Bank insurance specialist Craig Thorburn notes that interest in microinsurance has grown dramatically in recent years as firms have recognized the potential profits. The article observes that AIG's Uganda arm earns 17 percent of its profit from microinsurance premiums. Rupalee Ruchismita of India's Centre for Insurance and Risk Management emphasizes that microinsurance schemes tend to be more successful when community-based organizations work in partnership with private insurers. June 29. 2009

EBRD Loans $13m to Azerdemiryolbank of Azerbaijan

The European Bank for Reconstruction and Development (EBRD) will allocate a USD 13 million credit line to Azerbaijan's Azerdemiryolbank, a private bank that lends to other banks and small businesses. While EBRD holds a 25 percent stake in Azerdemiryolbank, it is majority-held by private individuals. Azerdemiryolbank currently holds assets equivalent to USD 259 million. As of 2007, its return on assets was 4.49 percent and return on equity was 26.7 percent. June 26. 2009

Kenya Lets MFIs Flourish: Faulu Kenya Taking Deposits

According to a recent survey on credit access in Kenya, the market share of microfinance institutions (MFIs) and savings and credit cooperatives rose from 7.5 percent three years ago to 20 percent at the end of 2008. This trend is expected to continue as MFIs can now apply for licenses to take deposits and participate in the Deposit Protection Fund Board. Faulu Kenya Limited recently became the first Kenyan MFI granted a license to accept deposits. Up to nine MFIs are expected to receive similar licenses by the end of the year. June 26. 2009

Discord Shakes Uganda Cooperative Alliance

The Uganda Cooperative Alliance and some of its members are struggling over whether individual cooperatives or only collectives of cooperatives should be able to join. June 25. 2009

Grama Vidiyal Micro Finance Limited Raises $4.25m

In its second round of fundraising, India's Grama Vidiyal Micro Finance Limited raised USD 4.25 million from MicroVest, Unitus Equity Fund and the Amar Foundation. Founded in 1992 by Activists for Social Alternatives, Grama Vidiyal reports 400,000 borrowers and a loan portfolio of USD 40 million. MicroVest Capital is a private microfinance investment firm. MicroVest's investment in Grama Vidiyal came from MicroVest II, its newly launched equity fund, which is an encore to a preceding USD 80 million debt and equity fund. The Amar Foundation, a nonprofit that supports education and microfinance, was co-founded by Vinod Khosla, co-founder of Sun Microsystems. June 25. 2009

Over-Indebtedness and Delinquency In India's Karnataka State

In a recent Microfinance Open Book Blog article, Siddharta Chowdri, ACCION International Country Manager for India, reports that borrower delinquency has become widespread in the Indian state of Karnataka. According to the Mr Chowdri, microfinance clients are borrowing from as many as six microfinance institutions (MFIs) and moneylenders. Many MFIs in the area do not track loans their clients are accepting from other institutions. Bhalchander Vishnwanath of Indian nonprofit United Prosperity responds that MFIs financed by equity investors are likely to feel pressure to lend to borrowers without regard to their existing debts. June 25. 2009

CGAP, GSM Association See Mobile Services Worth $5b in 2012

CGAP (Consultative Group to Assist the Poor) and the GSM Association (GSMA) have published a study estimating a potential growth of the mobile financial market to USD 5 billion by 2012. Mobile financial services can be used to make cash transfers and bill payments by SMS (text message) without a bank account. CGAP estimates that approximately one billion people in emerging markets have mobile phones but no bank account. In an indication of demand for the service, Safaricom of Kenya signed up 2 million customers during its first year of operation. CGAP analyst Mark Pickens remarked that, "There's a lot of excitement, but very little understanding [about] what's going on, as the number of implementations is still limited." June 25. 2009

India's ESAF Sells $2.5m Stake To OI Australia

Indian website VC Circle has reported that ESAF Microfinance and Investments, an Indian microfinance institution, has raised the equivalent of USD 2.5 million by selling a 20-percent stake to Dia Vikas Capital Private Limited, a subsidiary of Opportunity International Australia. ESAF offers microcredit, microinsurance, fund transfers and micro-energy loans. ESAF reports March 2008 assets of USD 21.8 million, 145,712 borrowers, a profit margin of 3.03 percent, return on assets of 0.71 percent and return on equity of 16.74 percent. June 25. 2009

Jordan Increases Support to Farmers

Jordan's Agricultural Credit Corporation reports having extended loans worth the equivalent of USD 19 million to farmers during the first five months of this year, compared with USD 11 million during the same period of 2008. The maximum loan size under a sample project was USD 4,200, with an interest rate of 5 percent and a term of five years. June 24. 2009

MicroEnsure to Launch Insurance Program for Indian Farmers

MicroEnsure, an insurance intermediary established by Opportunity International, plans to launch a microinsurance scheme in 2010 that will target 600,000 people. The offering will insure Indian farmers against rice crop failure. The insurance is expected to encourage banks to offer policyholders larger seed and equipment loans. The plan will be promoted to borrowers of Kolhapur District Cooperative Bank via a comic book that visually explains how insurance works. MicroEnsure has reportedly received a subsidy from the Indian government that will halve the premiums charged to about 2.5 percent of the value of the loan. A pilot scheme in Kolhapur in May 2009 sold 5,000 policies in two days. As of 2006, MicroEnsure served 3 million life, health and crop microinsurance clients in ten countries. June 24. 2009

Microfinance Professional Association Launches

The Microfinance Association, a global professional body that will cater to the needs of practitioners in the microfinance sector, has been established in the United Kingdom. June 24. 2009

Peace Microfinance Bank of Nigeria Grows Quickly

Peace Microfinance Bank of Nigeria has raised USD 6.75 million in share capital through December 2008, which is the minimum paid-up capital necessary to become licensed as a state microfinance bank. Peace was launched in May 2008 and offers microloans at 30 percent interest. Five branches now under construction will bring its network to 18 locations, including one in Niger. June 23. 2009

Citibank Arranging $21m Loan for Bangladeshi MFI BURO

Citibank Bangladesh is arranging a loan of USD 21.74 million to microfinance institution BURO Bangladesh. In addition to Citibank, thirteen local banks are also participating in the fundraising. The loan, targeted exclusively at agricultural microloans, will be distributed both by BURO and through other NGOs in Bangladesh. Founded in 1990, BURO offers savings, loan and life insurance products. Non-financial services include disaster relief, water supply and business development. BURO operates 393 branches, serves 496,603 active borrowers and holds a gross loan portfolio of USD 45.4 million. Agriculture loan sizes range from USD 145 to USD 726 with one-year terms and interest rates of 15 percent. June 23. 2009

ACCION Microfinance Bank of Nigeria Reaches Assets of $9.1m

ACCION Microfinance Bank Limited of Nigeria, which was granted an operating license in April 2007, has since served a total of 10,000 borrowers and disbursed loans worth USD 10.1 million. Yearend numbers include total assets of USD 9.1 million, loans outstanding of USD 4.8 million, 8,600 active borrowers, savings deposits of USD 960,000 and 20,000 savings customers. Shareholders' paid-up capital rose to USD 6.1 million from USD 3.9 million one year earlier. June 23. 2009

Chinese Limit on Leverage Ratios to Remain Low…For Now

The China Daily website reports that the China Banking Regulatory Commission (CBRC) will not ease the 50 percent limit on microfinance institutions' (MFIs') bank financing ratio in the short run. Despite pressure to raise the allowable ratio, CBRC officials held steady, citing concern that MFIs would pass increased risk on to their lenders. Over time, however, it was indicated that the limit may be eased to 200 percent. June 22. 2009

Spandana Sphoorty Financial Ltd. Issues $17m in Bonds

Indian microfinance institution Spandana Sphoorty Financial has raised the equivalent of USD 17 million in one-year, 10-percent bonds listed on the Bombay Stock Exchange (BSE). Standard Chartered was the sole book runner and arranger. Mrs Padmaja Reddy, managing director of Spandana, indicated the funds would help the institution expand to seven new states this year and that listing on the BSE would help improve corporate governance. Since its 2006 commitment to the Clinton Global Initiative to provide USD 500 million of credit to microfinance institutions, Standard Chartered has lent USD 385 million. For the year ending March 2008, Spandana reports a gross loan portfolio of USD 182 million, total assets of USD 208 million, a debt-equity ratio of 8.56 percent, return on equity of 53 percent and return on assets of 4.34 percent. June 22. 2009

World Vision's Credo Signs Up for PayBox System in Georgia

Credo, the microfinance subsidiary of World Vision Georgia, is now offering clients the option to make loan payments via thousands of 24-hour PayBox kiosks. Credo CEO Ljiljana Spasojevic said, "With this new technology we will enable clients in rural areas, where banking services or branches do not exist, to access our products." Credo reports total assets of USD 29.9 million and 21,857 borrowers. PayBox serves 5 million consumers worldwide. June 18. 2009

SKS Microfinance Plans to Raise $104m in Rated Debt

SKS Microfinance, an Indian microfinance institution, has announced plans to raise the equivalent of USD 104 million in bonds, commercial paper (CP) and securitization of receivables as part of an effort to raise USD 1 billion during the current fiscal year. Included in the USD 104 million is the USD 15 million bond issue reported in the June issue of *The MicroCapital Monitor*. CFO Dili Raj said that by accessing capital markets: "we are able to negotiate rates 100 - 150 basis points lower than a bank loan." June 18. 2009

Ningxia Offers Agricultural Loans in China

A recent Bloomberg report covered Ningxia Huimin Microfinance Company, which offers group agricultural loans starting at the equivalent of USD 125 per person with terms of six months, annual interest rates of 12 percent and required savings deposits. Lump sum repayment at the end of the term is allowed, as is suited to animal breeding activities. Ningxia plans to almost quadruple its loans to USD 11 million by 2012 and serve 15,000 households. June 18. 2009

Nigeria Demands Interest-Free Islamic Banking

Lamido Sanusi, governor of the Central Bank of Nigeria, recently spoke out against banks that fraudulently claim to offer Islamic banking products. June 18. 2009

Compuscan Establishes Credit Bureau in Rwanda

A private credit bureau has been established in Rwanda by Compuscan of South Africa, which has won a three-year contract for the effort from the National Bank of Rwanda. In hopes of reducing the country's non-performing microloan rate of 9.8 percent, the central bank is replacing the Centrale des Risques et des Impayés, a public institution that served commercial banks, microfinance institutions and 50,000 borrowers. Michael Malan, managing director of Compuscan, comments, "The principle of data reciprocity will apply. Users of data will be required to share data in order to view data, ensuring fairness for all." Compuscan serves 4,900 lending institutions and 21 million borrowers in eight African countries. June 16. 2009

Film Questions Impact of Kiva Model

A recent film directed by Tori Hogan takes a critical look at microlending, specifically the online broker Kiva. After meeting with Kiva loan recipients in Cambodia and Mozambique, Ms Hogan concludes that, although several had been able to successfully repay their loans, none had pulled themselves out of poverty. Kiva has raised USD 55 million in loans from 418,000 individuals for distribution via 94 microfinance institutions. June 16. 2009

Incofin Takes Stake in Asomi Finance of India

Incofin, a Belgian fund manager that invests in microfinance institutions, has taken a 34 percent stake in Asomi Finance Private Limited of India for an undisclosed price. In 2008, Asomi acquired a non-banking financial company license from the Reserve Bank of India, which allows it to receive banking finance. The International Finance Corporation and BlueOrchard have reportedly also expressed interest in investing in Asomi. As of March 2008, Asomi reported total assets of USD 4.7 million, a gross portfolio of USD 4.3 million, a 3.97 percent return on assets and a 109 percent return on equity. June 16. 2009

Mexico's enConfianza Microfinanciera Hires ACCION

Mexican microfinance institution enConfianza Microfinanciera has purchased consulting services from ACCION International relating to credit methodology, risk management, process management, human resources and organizational development. June 16. 2009

Agile Financial Technologies Gets into Rural Banking

Software provider Agile Financial Technologies of the United Arab Emirates has agreed to acquire the microfinance and credit management products of India's Theme Technologies. The contract includes a three-year earn-out mechanism, whereby a portion of the purchase price is contingent upon future performance. The acquired technology uses mobile and smart card technology to centralize the data processing and management of remote transactions. The acquisition also includes an integrated microcredit scoring and rating engine based on socio-economic factors. Agile will re-brand the products under Agilis Universal Microfinance, which will act as an outsourcing agency for microfinance institutions in Africa and Asia. June 15. 2009

EBRD Lends $34m to Leasing Arms of Poland's Bank Zachodni

The European Bank for Reconstruction and Development has granted a loan equivalent to USD 34.9 million to leasing subsidiaries of Poland's Bank Zachodni WBK. The subsidiaries, BZ WBK Leasing and BZ WBK Finance & Leasing, provide medium- and long-term lease financing to small and medium-sized enterprises. Bank Zachodni, which is controlled by Allied Irish Banks Group, reports assets totaling USD 7.7 billion. June 15. 2009

Microfinance Targeted at Youth in Yemen

Al-Amal Bank has announced a youth loan fund in partnership with Silatech, which was founded in 2008 by Her Highness Sheikha Mozah bint Nasser Al-Missned of Qatar. The fund will provide loans to 800 youth aged 18 to 30 during a 24-month pilot period. The loans will be augmented with entrepreneurship training and business development services. Al-Amal Bank reports having disbursed USD 408,411 in loans and having collected USD 55,238 in savings from 1,837 male and 1,088 female customers. June 15. 2009

EDITORIAL

Why They Keep Telling Us What We Already Know

Four microfinance institutions were awarded prizes this month for measuring and publicly reporting the impact their work has had on the material wellbeing of their clients. The "Social Performance Reporting Awards" are backed by CGAP (Consultative Group to Assist the Poor), the Dell and Ford foundations and the Social Performance Task Force (SPTF), a microfinance industry trade group. Silver medals are awarded to institutions that comply with SPTF disclosure requirements. Gold medals are awarded to those that gain third-party validation of the data used to evaluate impact on client poverty. AMK of Cambodia, FINCA Peru, Prisma Peru and Asasah of Pakistan were all winners. SPTF is continuing to issue these prizes, and microfinance institutions can be nominated until September 15.

At the same time, microfinance was trounced once again this month in the mainstream press for its failure to quantifiably demonstrate its impact on poverty. This latest round of criticism was triggered by the publication of a new study (summarized in this newspaper below) that yet again draws ambiguous conclusions on the capacity of microfinance to reduce poverty.

This is a sorry state of affairs. The ammunition used to criticize microfinance is provided by microfinance advocates - the same population being criticized. We are being told what we already know. We have known for many years that the evidence is inconclusive when it comes to microfinance and poverty, yet this fact appears time and time again as news.

And yet the resulting criticism has a point: We as an industry have yet to mount a systematic effort to measure our impact on poverty.

When will we own this issue as a community? Microfinance continues to suffer from being oversold. We know it is no "silver bullet," no miraculous solution to poverty, yet we hold our tongues when it is characterized as such. Honest recognition that we still have a lot of work to do would serve us far better.

Congratulations are in order to this month's winners for setting the standard for accountability. But it is just a drop in the ocean - only a small move toward the massive job of measuring social performance. Broad participation and a sustained effort over time are required to build the needed infrastructure. Microfinance institutions need to report and investors need to standardize reporting requirements across the industry to share the burden. All aboard!

CGAP MICROFINANCE DEALBOOK

POWERED BY micro capital

TOP JUNE 2009 MICROFINANCE TRANSACTIONS

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

Investor	Investee	Region	Amount (USD)	Type
Small Industries Development Bank of India	Equitas Microfinance Ltd	SA	20,500,000*	Debt
European Bank for Reconstruction and Development	Azerdemiryol	ECA	10,000,000	Debt
Investment AB Kinnevik	MicroVest II	**	10,000,000	Unspecified
FMO (The Netherlands Development Finance Company)	Leapfrog Financial Inclusion Fund	**	6,400,000	Equity
International Finance Corporation	MI-BOSPO	ECA	5,600,000	Debt
Triodos Fair Share Fund & Triodos Microfinance Fund	Crear Arequipa	LAC	5,005,061*	Debt
Triodos Microfinance Fund	Mibanco	LAC	3,500,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	Mibanco	LAC	3,040,541*	Debt
responsAbility Global Microfinance Fund	ProCredit Ecuador	LAC	3,000,000	Debt
responsAbility Global Microfinance Fund	Crear Arequipa	LAC	2,770,727*	Debt
Oikocredit	Equitas Microfinance Ltd	SA	2,502,914*	Debt
Triodos Fair Share Fund & Triodos Microfinance Fund	FFP FIE	LAC	2,500,000	Debt
Dia Vikas Capital (Opportunity International Australia)	ESAF Microfinance and Investments	SA	2,500,000*	Equity
Dexia Micro-Credit Fund (BlueOrchard Finance)	Kompanion Financial Group	ECA	2,000,000	Debt
Hivos-Triodos Fund & Triodos Fair Share Fund	FINCA Ecuador	LAC	2,000,000	Debt
responsAbility Global Microfinance Fund	Cafe Peru	LAC	2,000,000	Debt
Bistum (responsAbility)	ProCredit Ecuador	LAC	1,542,793	Debt
Bistum (responsAbility)	Azerdemiryol	ECA	1,542,793	Debt
responsAbility Global Microfinance Fund	Nueva Vision	LAC	1,509,031*	Debt
Hivos-Triodos Fund & Triodos-Doen	MFX Solutions	**	1,500,000	Equity
Vision Microfinance Fund	Crezkamos Kapital	LAC	1,500,000	Debt
Oikocredit	CDC	SA	1,042,881*	Debt
Oikocredit	Credible	SA	1,042,881*	Debt
International Finance Corporation	XacLeasing	ECA	1,000,000	Debt
Oikocredit	Frontiers	ECA	1,000,000	Debt
responsAbility Global Microfinance Fund	Credit MFI	EAP	1,000,000	Debt
Vision Microfinance Fund	BanDelta	LAC	1,000,000	Debt
Vision Microfinance Fund	Sunrise MKF	ECA	710,000	Debt
Locfund	Unspecified	LAC	700,000*	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*

Local Currency: *Deals denominated in local currency are indicated by an asterisk (*) in the "Amount" column*

MEET THE BOSS

Isabelle Levard is Deputy CEO of MicroCred.

Isabelle Levard

MicroCapital: Please describe MicroCred.

IL: MicroCred is an investment company founded by PlaNet Finance that creates, builds and manages microfinance institutions. In 2005, it was created by Arnaud Ventura, who was then the CEO of PlaNet Finance. (Mr Ventura then became President of MicroCred and Vice President of PlaNet Finance.) MicroCred institutions do not have a bank status in all countries, but we do our best to obtain bank status so that we can collect savings. As of end of May 2009, we have four operational institutions in Mexico, Madagascar, Senegal and China, which serve more than 30,000 clients and manage an outstanding portfolio of EUR 18 million. We have more than EUR 1 million of savings and around 15,000 savers. We are about to launch new operations in Nigeria and Ivory Coast. Our plan is to launch two new institutions per year, with a goal of having 15 in operation by 2013.

MC: What is your personal background?

IL: Before joining MicroCred, I led the development of Planet Rating and structured it as a private company within the PlaNet Finance Group. Before joining PlaNet Finance, I served on the management team of a leading venture capital fund in London investing mainly in mid-cap and start-up information technology companies. I also spent almost two years traveling the world, particularly in Africa, reporting on the use of information technologies in emerging economies. I joined MicroCred in December of 2006 as Chief Strategy Officer before being appointed to the Deputy CEO position at the end of 2008.

MC: What is MicroCred's vision?

IL: MicroCred's vision is to offer responsible financial services to people in emerging countries with no access to financial services. In order to do so, MicroCred establishes start-up (greenfield) microfinance banks and non-bank financial institutions. We are very careful to offer responsible lending products and to behave responsibly with regard to our staff.

MC: What is your process to establish a new microfinance institution?

IL: There are three main stages. The first stage is the identification and assessment stage; it consists mainly of a market study. On a continuous basis we have people identifying new opportunities worldwide. Once we have identified a promising country, we meet with banks, investors, competitors, regulators and central bankers.

The second stage is pre-operational, consisting of the finalization of the equity structure, grants and technical assistance partners; the local pre-operational tasks (offices, MIS implementation and recruiting); and bank licensing.

Stage three is the launch of operations.

MC: What are the economics of a start-up MFI?

IL: Actually, it's quite standard. Most of our greenfield start-ups are made possible thanks to technical assistance grants provided by donors. This funding allows us to break even during the third year and to earn a positive profit during the fifth year.

MC: Who are your investors and what are their expectations?

IL: At the holding level we have a total of EUR 18 million in capital, and we are expecting to receive an additional EUR 3.6 million during the next six months. Our investors are PlaNet Finance, IFC, AXA Belgium, Société Générale, IFD, EIB and Developing World Markets Equity Fund. They are mainly looking for increased numbers of clients served and an internal rate of return of 15 percent - in the long term. The first priority is providing high quality products to our clients and return is a secondary priority.

MC: How does MicroCred make use of technology?

IL: We've decided to use the same information system for all our subsidiaries. It is called eMerge, a spin-off of Globus. In terms of mobile money technology, MicroCred participates in the PlaNet Finance-Gates Foundation initiative for Africa and hopes to offer mobile money services to its customers soon. We believe that promoting savings won't be successful unless we offer strong means of payment. And it's not just mobile money, it's also automatic teller machines and credit cards.

MC: How do you ensure transparency?

IL: We follow CGAP best practices. Every month, our subsidiaries have compulsory financial and operational reporting responsibilities and those are posted on our website. Every month we publish their results including classic ratios, number of active clients, income, interest rates, portfolio at risk, etc. We want our clients to know what they are paying for in each of our subsidiaries - what they can expect. We participate in MIX Market reporting and everyone who asks for results will get them.

We believe that promoting savings won't be successful unless we offer strong means of payment. And it's not just mobile money, it's also automatic teller machines and credit cards.

MC: What do you look for in local and international partners?

IL: We look for many things. First, we like to work with banks and insurance companies that offer long-term investments. On an international level, we look to development finance institutions for technical assistance grants. When we launch a new Microcred in a new country we own 50 percent or more of the capital shares, so we are looking for people to invest with us at the subsidiary level.

MC: On a personal level, what is the origin of your passion for microfinance?

IL: For me it started with finance. I've always liked figures and working with numbers. Also, I was born and raised in Africa. I think that the market economy and - more specifically - financial products are key to helping developing countries.

POWERED BY mix Microfinance Information eXchange

MICROCAPITAL MARKET INDICATORS I SUB-SAHARAN AFRICA

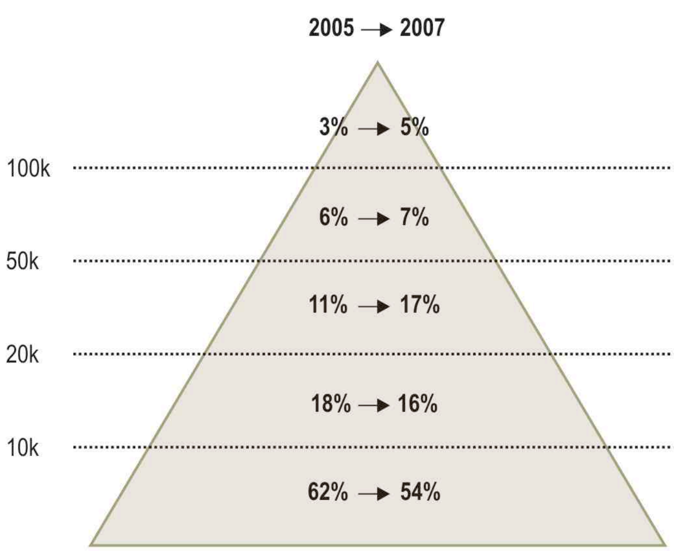
167 MFIs REPORTING FROM 31 COUNTRIES[1]

Angola	Burundi	Chad	Democratic Republic of the Congo	The Gambia	Guinea-Bissau	Malawi	Niger	Senegal	Swaziland	Uganda
Benin	Cameroon	Congo	Ethiopia	Ghana	Kenya	Mali	Nigeria	Sierra Leone	Tanzania	Zambia
Burkina Faso	Central African Republic	Cote D'Ivoire		Guinea	Madagascar	Mozambique	Rwanda	South Africa	Togo	

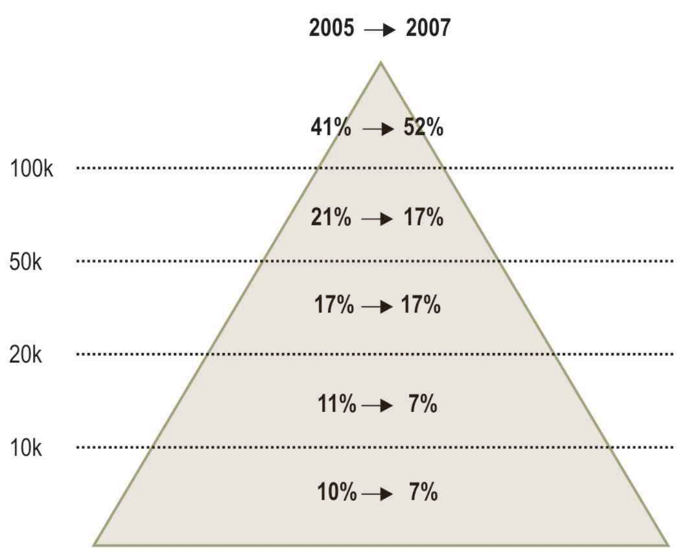
TOP 10 MICROFINANCE INSTITUTIONS (MFIs) BY GROWTH IN GROSS LOAN PORTFOLIO: CHANGE IN USD

MFI NAME	COUNTRY	AVERAGE ANNUAL USD INCREASE	AVERAGE ANNUAL % INCREASE	2005	2007
Equity Bank	Kenya	137,889,652	112	78,875,672	354,654,976
Capitec Bank	South Africa	118,735,880	95	84,425,456	321,897,216
Centenary Rural Development Bank Limited	Uganda	30,140,844	46	53,069,136	113,350,824
ACSI - Amhara Credit and Savings Institution	Ethiopia	29,287,936	47	51,068,056	109,643,928
CMS - Crédit Mutuel du Sénégal	Senegal	26,933,120	40	56,313,680	110,179,920
K-Rep Bank	Kenya	24,390,722	56	33,714,348	82,495,792
KWFT - Kenya Women Finance Trust	Kenya	20,461,600	74	20,143,244	61,066,444
DECSI - Dedebit Credit and Savings Institution	Ethiopia	19,482,392	22	78,266,800	117,231,584
CamCCUL - Cameroon Cooperative Credit Union League Limited	Cameroon	18,254,704	37	41,087,408	77,596,816
RCPB - Réseau des caisses populaires du Burkina	Burkina Faso	16,163,210	26	54,869,268	87,195,688

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., June 2009, based on MFIs reporting to MBB or MIX Market.

UPCOMING EVENTS

World Council of Credit Unions Annual Conference
July 26 - July 29, 2009, Barcelona, Spain

Key players from the global credit union community will gather to network and discuss best practices. Session topics will cover a wide range of credit union operations and culture. The cost is USD 1,195 for members and USD 1,395 for non-members, plus VAT, with a discount of USD 100 available for certain attendees. Details are available from Allison McCarty at +1 608 395 2095, amccarty@woccu.org or http://www.woccu.org/events/wcuc.

Encuentro Centroamericano de Microfinanzas
September 9 - September 11, 2009, San Salvador, El Salvador

This conference will focus on practical strategies for managing risk while planning for growth during the financial crisis. Registration, which costs USD 150 may be completed at https://www.accion.org/SSLPage.aspx?pid=1706. More details are available via conference@accion.org or +1 617 625 7080.

Microfinance for Institutional Investors
September 21 - September 23, 2009, Vienna, Virginia, USA

This event will include analyses of innovative microfinance investments, evaluations of emerging opportunities in Asia and the Middle East and assessments of exit strategies for equity investments. Pricing for institutional investors is USD 1,099, with discounts available for nonprofits and early registration. Add-on workshops are also offered. More information is available at http://www.hansonwade.com/events/microfinance-for-institutional-investors/, info@hansonwade.com or +1 212 537 5898.

Clinton Global Initiative - Fifth Annual Meeting
September 22 - September 25, 2009, New York, USA

The Clinton Global Initiative is introducing four new action areas this year, including the Financing a Sustainable Future program, under which participants will make commitments to impact investing in micro-, small and medium-sized enterprises; housing in developing countries; climate adaptations; and microinsurance. Attendance at this major event is by invitation only.

Global Youth Enterprise Conference
September 29 - September 30, 2009, Washington, DC, USA

This conference is structured around five tracks: project design and implementation; policy and advocacy; monitoring, evaluation and impact assessment; partnerships; and crosscutting. Early registration fees are USD 475 per registrant or USD 450 when 3 or more register from the same organization. Prices rise by USD 100 on July 31. Details are available via http://youthenterpriseconference.org/ or from Whitney Harrelson at whitney@ makingcents.com or +1 202 783 4090.

XII FOROMIC 2009: Inter-American Forum on Microenterprise
September 30 - October 2, 2009, Arequipa, Peru

This event - sponsored by the Multilateral Investment Fund - will offer a platform for stakeholders in the microfinance and microenterprise development industries to meet colleagues and to exchange best practices, methodologies and strategies to promote and support the microenterprise sector. The fee to attend has not yet been released, but a selection of add-on trainings are available on September 29 for USD 250. More details are available via http://www.iadb.org/mif/foromic, foromic@iadb.org or +1 202 623 1000.

Second Annual Microfinance Investment Summit
October 6 - October 7, 2009, London, UK

This event, sponsored by Incofin of Belgium, aims to unite a wide variety of microfinance stakeholders: institutional and private investors, the donor community, microfinance institutions (MFIs) and industry experts. The cost to attend is the equivalent of USD 2,100 dollars plus VAT, with discounts available for staff of MFIs, microfinance investment vehicles and fund management companies. Add-on workshops are available for USD 600. More details are available from C5 International at enquiries@c5-online.com, +44 (0) 20 7878 6886 or http://www.c5-online.com/microfinance.htm.

2009 International Forum on Remittances
October 22 - October 23, 2009, Tunis, Tunisia

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

Mobile Money Transfer Conference and Expo
October 26 - October 27, 2009, Dubai, United Arab Emirates

This event will include small group conversations with leaders of mass-market mobile money programs serving millions of consumers. Sessions will highlight how to structure complex relationships - sharing brands, customers, data and revenues for the benefit of all parties. Registration costs GBP 1299 with add-on workshops and discounts available for early registration and multiple attendees from one organization. Details are available via Steven Clarke at +44 (0) 20 7067 1831, mmt@clarionevents.com or http://www.mobile-money-transfer.com/global-summit/.

Fifth International Microinsurance Conference
November 3 - November 5, 2009, Dakar, Senegal

This conference will focus on issues of providing health insurance to the poor, linking microfinance and microinsurance, the African microinsurance experience and an economic analysis of microinsurance markets. Fees range up to EUR 690, with significant discounts available for public sector and nonprofit entities as well as for early registrations. For additional information, contact Dirk Reinhard via +49 89 3891 8888, info@munichre-foundation.org or http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2009Microinsurance/default.htm.

Triple Bottom Line Investing Conference - Europe 2009
November 12 - November 13, 2009, Amsterdam, Netherlands

This conference focuses on sustainable development and environmental, social and governance investing in Europe and Asia. Attendance costs EUR 745 for one day or EUR 1,245 for two days. More information is available via Frank Stevens at europe2009@tbli.org, +31 (0) 20 428 6752 or http://tbliconference.com/.

Eighth Africa Microfinance Network Annual Conference
November 16 - November 20, 2009, Dakar, Senegal

This event will focus on strategies to boost economic growth in Africa with the aim of building strong and inclusive rural finance systems that create employment and increase the incomes of poor people. The registration fee is USD 300. More details are available from Davy Serge Azakpame at davy.serge@afminetwork.org, +229 21 30 74 41 or http://www.afminetwork.org/events_8th-annual-conference-and-general-assembly_3.html.

PAPER WRAP-UPS

The Miracle of Microfinance? Evidence From a Randomized Evaluation

By Abhijit Banerjeey, Esther Duoz, Rachel Glennersterx and Cynthia Kinnan, published by CGAP (Consultative Group to Assist the Poor), May 2009, 40 pages, available at: http://collab2.cgap.org//gm/document-1.9.34827/The%20miracle%20of%20micro%C2%85nance.pdf

This study, which its authors believe to be the first randomized evaluation of the effects of microfinance, concludes that microfinance has only a small effect on the fortunes and almost no effect on the lifestyles of poor people. In this case, the term randomized refers to the random selection of 52 of 104 similar poor areas of Hyderabad, India, as locations for new branches of microfinance institution Spandana. The authors distributed a survey fifteen to eighteen months after the openings of the branches amongst an average of 65 households in each area.

After the opening of a branch, the likelihood of receiving a microloan was 27 percent in areas with branches and 18.7 percent in areas without branches. The baseline study conducted before the introduction of a Spandana branch indicated that 69 percent of households had at least one outstanding loan of about USD 400 with an interest rate of 3.85 percent per month. Thirty-four percent of the households had a savings account, 26 percent had life insurance and a negligible amount had health insurance.

No significant changes in lifestyles or culture were observed. The authors examine the change in profits in businesses of different sizes. In the 50th percentile of business profit, the effect of microfinance on profits is zero. However, the effect on the least and most successful businesses is more significant, with businesses with profit at the 95th percentile reporting an average profit increase of about USD 130.

The authors conclude that in the fifteen- to eighteen-month period after the opening of the Spandana branches, there are changes in household expenditure and profits in some businesses, but there is little change in aspects of lifestyle such as healthcare and education.

Microfinance Banana Skins 2009: Confronting Crisis and Change

By David Lascelles and Sam Mendelson, published by the Centre for the Study of Financial Innovation, June 2009, 52 pages, available at: http://www.cgap.org/gm/document-1.9.35203/Microfinance%20Banana%20Skins%202009.pdf

The Microfinance Banana Skins 2009 survey explores the risks, or "banana skins," facing the microfinance industry at a time when the global financial crisis has raised new and unfamiliar challenges. The report, the second in the series, describes the risks seen by an international sample of practitioners, investors, regulators and observers of the sector. The survey was conducted in April and May 2009 and is based on 430 responses from 82 countries. The key finding of the survey is that the economic crisis has completely transformed perceptions of the microfinance risk landscape. Microfinance institutions (MFIs), their investors and regulators are now focusing on credit risk, liquidity and global economic trends, in contrast to the top three concerns from 2008: management quality, corporate governance and inappropriate regulation.

Of the 25 Banana Skins ranked, the top five risks this year include:

1. Credit Risk. Rising from the number 10 spot in the 2008 survey, the emergence of credit risk - the risk of loss when loans are not repaid - as the top banana skin is representative of the new challenges facing the industry in the wake of the financial crisis.
2. Liquidity. Having enough cash available to make loans and meet deposit withdrawals stood at just number 20 in last year's survey. With banks cutting lines because of the credit crunch and the fear that depositors could lose confidence and pull out, liquidity risk could affect MFIs' business prospects and financial strength. The risk was widespread both geographically and among all types of respondents.
3. Macro-economic Trends. Many respondents said that MFIs could no longer claim to be insulated from shocks in the "real economy," a sharp change in attitude from the last survey when macro-economic trends were ranked number 23. Respondents saw microfinance being hit by rising unemployment, worsening bad debts, falling remittances and declining investor and depositor confidence. Respondents from all regions except Asia put this risk in their top five, with practitioners and investors most concerned.
4. Management Quality. Concern about management quality fell from the top position since the 2008 survey, both because it was overtaken by more urgent risks and because there was the perception of progress. Of note, respondents in Africa still ranked management quality as the top risk.
5. Refinancing. One of the top concerns for investors, refinancing risk addresses the danger that MFIs may not be able to renew their base funding from investors or donors because of changes in their circumstances or the stress of the economic crisis.

While many respondents thought that MFIs had been lulled by good times into thinking that the global economic crisis would not affect them, some respondents stressed the traditional resilience of the microfinance in facing these challenges. This sentiment was echoed by CGAP CEO Elizabeth Littlefield, who said, "This year's Banana Skins survey highlights cracks and fissures in microfinance that have surfaced with the global economic crisis. But, the sector is basically healthy, with strong fundamentals and a solid, reliable and growing client base. Tackling immediate concerns about credit risk and liquidity is important, but remaining focused on longer-term issues of strong management, governance and asset and liability management capacity remains crucial for the future." On the other hand, the authors of the survey summed up the tone as "ominous."

Microfinance for Bankers and Investors: Understanding the Opportunities and Challenges of the Market at the Bottom of the Pyramid

By Elisabeth Rhyne, published by McGraw-Hill Professional, May 2009, 352 pages, not available for electronic download.

This book explores the challenges of profitably delivering credit, savings, insurance and remittance services tailored to serve the so-called bottom of the pyramid, the four billion people in the world who live on less than USD 3,000 per year. The book offers sixteen in-depth case studies on ventures by companies such as Citibank, Visa and Sequoia Capital that explore successful solutions in product design; last-mile delivery to remote villages and urban slums; and technological innovations that reduce costs and provide new means of payment and remittance to populations previously tied to a cash economy. The author speaks to potential microfinance investors in three ways: by reviewing authoritative research that demonstrates the investment opportunity, by analyzing success stories from around the world and by identifying best practices.

The Role of Mobile Operators in Expanding Access to Finance

By Ignacio Mas and Jim Rosenberg, published by CGAP (Consultative Group to Assist the Poor), May 2009, 4 pages, available at: http://www.cgap.org/gm/document-1.9.34485/Mobileoperators_Brief.pdf

Banks and mobile operators have two different perspectives on mobile banking. Banks view it as a way to enhance services to existing customers. Mobile operators, on the other hand, focus more on reaching the mass market and unbanked. This brief assesses the capacity and incentives for mobile operators to provide financial services themselves, as opposed to acting as an intermediary. The authors conclude that mobile operators do not necessarily need to "own" the financial services associated with mobile banking.

There are several options for mobile operators to participate in financial services delivery.

- The mobile operator can offer basic services where it can provide secure communications services to financial service providers, enabling transactions. Thus, the mobile operator will be in the role as an intermediary, relaying messages between the provider and customer. It can also provide "mobile wallet services," which manage the flow of transactions between accounts as directed by the mobile customer.
- The mobile operator may also host the accounts of third parties and authorize transactions on their behalf. A third-party institution keeps the float, but account management is delegated to the mobile operator.
- The mobile operator may issue accounts where value can be stored before or after the transaction. These are prepaid or electronic money or mobile accounts where basic transactional deposit accounts are accessible from a mobile phone.
- The most comprehensive option is to provide mobile banking capabilities. This would go beyond making and receiving payments and customer management of accounts. This would entail using a broader range of products like credit and insurance.

The brief examines the advantages and core strengths that mobile operators have in providing financial services, advantages that banks may not possess:

- Network of physical retail outlets. Mobile operators do business with a greater number of customers than banks. Thus, they have a greater number of retail outlets.
- Secure electronic transaction capture capability. The mobile operator can offer a customer service platform that is both secure and user-friendly because of the mobile operator's control of the subscriber identity module (SIM) card. SIM cards identify a user on mobile telephony devices.
- Transaction processing platform. The platforms for processing prepaid mobile billing are simple since they do not need to support a high level of customer reporting like monthly statements or regulatory reporting.

Next, the authors explain the incentives for mobile operators to offer financial services.

- Additional revenues. Mobile operators can charge transaction costs.
- Churn reduction. Mobile operators can reduce "churn", or customer turnover, if regular users of payments services stop switching mobile operators once they are familiar with how the service works and have a bank account linked to their mobile phone number.
- Branding. A mobile operator can augment its brand positioning based on customer service and innovation if it were first-to-market in providing financial services.
- Distribution cost reduction. Mobile operators incur substantial costs collecting revenue from their customers. This could reduce distribution of prepaid cards.

Finally, the brief explores the risks associated with mobile operators providing financial services.

- Breaches in data and transactional security. Accounting errors, fraudulent transactions and breaches in data privacy could expose the mobile operators to huge liability and reputation damage.
- Operational focus. Management's core focus is communications. Adding financial services may distract and stretch the abilities of smaller mobile operators.
- Additional regulation. Accompanying the ability to provide financial services is compliance with financial regulation. Mobile operators may incur increased costs to comply with financial regulations.
- Customer care costs. There could be an increase in customer care calls that could wipe out profitability.

Are Deposits a Stable Source of Funding for Microfinance Institutions?

By Julia Abakaeva and Jasmina Glisovic-Mezieres, published June 2009 by CGAP (Consultative Group to Assist the Poor), 4 pages, available at: http://www.cgap.org/gm/document-1.9.34820/CGAPBrief_Deposits.pdf

New research has found that the aggregate savings balances of low-income deposit holders increase slowly and are not prone to unexpected monthly swings. This quality should allow for simpler liquidity management for financial institutions.

CGAP (Consultative Group to Assist the Poor) commissioned this study by the Frankfurt School of Finance and Management to examine the stability of small deposits. Five financial institutions were studied and the actual behavior of deposits was reviewed. Three questions were posed: Are there recurring seasonal savings patterns? How volatile or predictable are the aggregate balances of demand and term deposits? How do external events (e.g. natural disasters, political turmoil, war) affect deposits?

The five institutions studied were Allied Bank (Pakistan), VTB (Georgia), BPR Kebomas (Indonesia), Equity Bank (Kenya) and Banco Sol (Bolivia). They each serve poor individuals in large markets and hold deposits for low-income savers. The definition of a "small balance" deposit varies for each country based on account sizes, customer demographics, the poverty line and income per capita.

When compared to a German bank, Equity Bank and Allied Bank both had similar deposit behavior patterns. Savings accounts were the least volatile; term deposits more volatile, as people deposit and withdraw in large amounts; and current accounts were the most volatile, as these are used for frequent transactions.

The other three financial institutions exhibited a different behavior, as ordinary savings accounts were more volatile than term deposits. The research showed that this was due to total term deposits being several times larger than the total balance of ordinary savings accounts. Therefore this may distort the volatility of savings. However, in general, the stability of deposits will depend on the size and frequency of transactions, institutional reputation and interest rates.

The data showed that there was no seasonal pattern in withdrawals.

There was no effect on deposit balances when there were natural disasters such as the October 2005 Kashmir Earthquake or December 2004 Tsunami. During some sociopolitical crises in some countries, deposits did drop. There was no increase in deposits during periods of positive macro change.

A portion of small balance deposits from any financial institution can be considered a stable source of funding. To determine what proportion can be considered for long-term loans, institutions must analyze their depositor base. The analysis should cover three years of monthly and one year of daily data to account for long-term trends, seasonal effects and daily volatility patterns.

Asset and Liability Management for Deposit-Taking Microfinance Institutions

By Kara Bloom, published by CGAP (Consultative Group to Assist the Poor), June 2009, 36 pages, available at: http://www.cgap.org/gm/document-1.9.34818/FN55.pdf

The author acknowledges that financial risk can yield high profits, but urges microfinance institutions (MFIs) to maintain proper asset and liability management (ALM) to find a level of risk the institution can bear. As the financial activity of MFIs grows more complex and funding increasingly comes from commercial sources, careful examination of the balance sheet can help MFIs measure and evaluate risk. Risk, in this case, is defined as a mismatch between assets and liabilities.

In this paper, the author examines three types of risk: liquidity, interest rate and foreign exchange. Although each type of risk is distinct, ALM strategies for all types include gap analysis to match assets and liabilities over time and volatility analysis to determine typical fluctuations in the discrepancy between assets and liabilities.

The multifaceted approach to ALM proposed by the author includes an official risk-management strategy written by the MFI, based on the institution's own priorities; matching tables for assets and liabilities; and a special institutional committee for ALM.

The author provides several matching tables as examples of how to compare assets and liabilities. Claiming that the priority of an MFI ought to be the creation of straightforward products for its client base, unlike the average commercial bank, the author states that ALM should lean towards reacting to discrepancies between assets and liabilities rather than willfully creating them. The author believes that MFIs ought not to rashly attempt to profit from financial risk. But if risk is taken, it should be limited to credit risk rather than interest rate or foreign exchange risk. MFIs also differ from commercial banks in terms of assets. MFIs generally maintain long-term, fixed-rate assets in the form of loans. In order for assets to match liabilities, liabilities too must exhibit these characteristics, taking the form of either stable savings deposits, bonds or equity.

The author admits that it is difficult for MFIs to match assets and liabilities. If the MFI can calculate the profitability impact of a mismatch, then the institution at least has awareness of the risk and can set a limit for risk the institution is willing and able to undertake within a specific time frame.

Going on to describe the various forms of risk, the author states that liquidity risk is the most significant because an MFI could never survive a liquidity crisis. While MFIs often pour liquidity into the loan portfolio, the author insists that MFIs maintain liquidity reserves in case of a crisis. Because there is a time gap in the maturing of loans and deposits, the author describes gap analysis, which determines how liabilities, which mature at a different rate, can compare with assets over time. While loans have long-term maturity, depositors have the right to withdraw savings at any time. On average, there is a base of deposits that the MFI can expect to maintain. The author also recommends volatility analysis of deposit liabilities to determine the rate of withdrawals and the amount of deposits that can be relied upon.

The second major type of risk discussed is interest rate risk. The author describes its manifestation for MFIs as the repricing of assets or liabilities due to fluctuations in interest rates. In order to price the assets correctly, the MFI must know how much of its budget will come from profits and how much will come from new financing. Unlike the case of liquidity risk, where the MFI must consider that savings deposits might be claimed at any time, savings deposits can reduce the cost of funds in the case of interest rate risk by precluding the need for new financing.

On the balance sheet itself, changes in assets and liabilities due to interest rate flucttuations appear as changes in equity. If MFIs calculate the average and maximum volatility of interest rates as well as expected profits, it is better prepared to undertake risk. Another method of assessing interest rate risk is duration gap analysis, which reveals the change in market value of assets and liabilities due to interest rate changes. Although this method directly applies to bonds, MFIs can treat assets and liabilities like bonds to assess the magnitude of the effect on profit. Duration analysis is intended to assist MFIs in matching the duration of assets and liabilities rather than their maturities.

The last type of risk evaluated is foreign exchange risk, which arises out of a mismatch in the currencies in which assets and liabilities are expressed. Often, the loan portfolio is in local currency while liabilities are a mix of foreign and local currency. If local currency is tied to another currency like the US dollar, there is effectively no risk since the exchange rate will remain the same.

Measurements of foreign exchange risk may be made in two ways. In net open foreign exchange position, assets and liabilities in different currencies can be separated into multiple columns. In each column, liabilities can be subtracted from assets to determine the difference for each currency. Afterwards, the net open foreign exchange position can be compared with capital. In the second method, the MFI calculates the impact of devaluation of a certain currency. Volatility analysis of exchange rates can be useful in this calculation. Beyond these measurements, MFIs can conduct liquidity gap analyses on each currency, which can reveal the maturity of foreign currency liabilities. To protect against risk, the MFI can deal in forwards, swaps and options. Although external regulation can encourage proper ALM, the author believes that it is the responsibility of each MFI to sensibly and carefully evaluate the risk level the institution can handle.

The author concludes the article by describing how ALM strategies can be incorporated into operations. Chiefly, this involves the creation of a dedicated team that brings together all the parties involved in the balance sheet. For all types of risk, the author insists that the team agree on a limit for the amount of risk the MFI is willing to undertake. The author urges regular gap analysis on all types of risk and especially stresses the need for the calculation of liquidity ratios and an official plan for a liquidity crisis. The author cautions that the impossibility of perfectly managing assets and liabilities is no excuse to not try.