

MICROCAPITAL BRIEFS | TOP STORIES

Pakistan Enforcing Right to Hold MFI Shareholder Capital

The State Bank of Pakistan (SBP) has issued a circular requiring shareholders of microfinance institutions (MFIs) to deposit their holdings in blocked accounts of the Central Depository Company. The SBP took the measure in accordance with a clause in the Microfinance Institutions Ordinance 2001 that states that the majority of the paid-up capital of an MFI should be subscribed to by the promoters or sponsors of an MFI and that those shares should remain in the custody of the SBP. The shares cannot be transferred or encumbered without prior written permission from the SBP. The regulation is intended to ensure adequate capitalization of MFIs to protect their clients. May 28, 2009

SKS Microfinance Raises \$15m Listing Bonds on Bombay Exchange

Indian microfinance institution SKS Microfinance has issued one-year, 10-percent bonds for listing on the Bombay Stock Exchange, raising the equivalent of USD 15.8 million. According to a story on the website VCCircle, SKS plans to expand its branch network from 1,350 to 1,750, increase its membership from 4 million to 6.5 million and double its gross loan portfolio to USD 1.1 billion this year. SKS CFO Dilli Raj stated that the bond listing helps diversify funding sources and enhance public accountability and corporate governance. May 22, 2009

Jamii Bora Trust Stakeholders Acquire Kenya's City Finance Bank

Stakeholders of Kenyan microfinance institution Jamii Bora Trust have bought a majority share in City Finance Bank. The transaction remains subject to regulatory approvals. Regarding City Finance, Kenyan newspaper *The Standard* reports: "The move comes barely a year after a consortium of local investors, Baraka Africa Fund and other individual investors acquired a 51 percent controlling interest in the bank with intentions of restructuring the losing-making institution through injection of fresh capital...." Jamii Bora recently reported a total loan portfolio equivalent to USD 38.3 million, with 329,000 loans disbursed since 1999. Jamii Bora also offers microfinance add-on services such as health insurance, which was developed in response to a finding that 93 percent of members that defaulted did so because of hospitalization of a family member. May 18, 2009

NEXT MONTH:

Meet the Boss Interview with Isabelle Levard of MicroCred

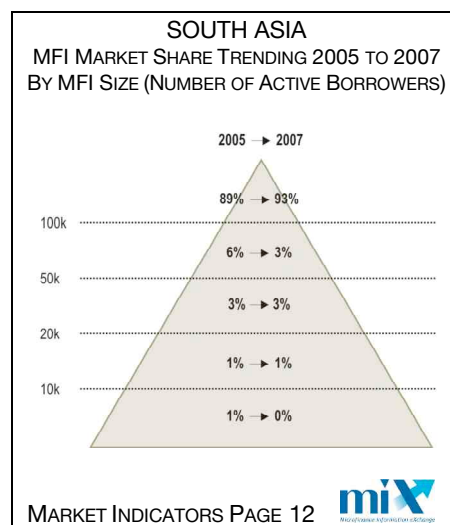
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MICROFINANCE CAPITAL MARKET
TRANSACTIONS EVERY MONTH

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MICROCAPITAL BRIEFS

Grameen-Jameel Backs Aga Khan in Syria

Grameen-Jameel of Dubai has issued a local-currency guarantee worth USD 2.7 million to the First Microfinance Institution (FMFI) Syria, a unit of the Aga Khan Agency for Microfinance of Switzerland. The guarantee backs a commercial overdraft facility disbursed by commercial Bank Audi Syria. Founded in 2008 with USD 8.7 million in capital, FMFI aims to use the new funding to serve 2,700 additional clients with credit, deposit and other financial services. June 12, 2009

Gates Foundation Gives World Bank \$20m for Agriculture

The Bill and Melinda Gates Foundation has granted USD 20 million to the World Bank Group to establish an Agriculture Finance Support Facility, which will make grants to microfinance institutions to increase access to financial services in rural areas including savings, credit, payments and insurance services. June 11, 2009

Co-Operative Bank, Deutsche Bank to Launch \$50m Fund

Co-Operative Bank and Deutsche Bank have announced the launch of a USD 50 million microfinance fund to target credit unions and co-operatives. The "Global Co-operative Development Fund" is slated to open to investors in late 2009. Managed by Deutsche Bank and sub-managed by Oikocredit, the fund aims to provide capital to the poorest communities in Central Europe, Asia and Latin America. June 11, 2009

Remittances to Mexico Down 18%

Mexico's central bank has reported a drop of 18.6 percent in remittances that Mexicans living abroad send home. Remittances for the month of April totaled about USD 1.7 billion, as compared to USD 2.1 billion in April 2008. After oil, remittances are Mexico's largest source of income. 2008 was the first year remittances declined since authorities began keeping records 13 years ago. June 11, 2009

Rating Pays Off for Green Bank of the Philippines

Filipino newspaper *BusinessWorld* reports that Joseph Omar O. Andaya, President of Rural Green Bank of Caraga, believes that having the bank rated by Italy's Microfinanza Rating helped identify weaknesses and open the doors to a possible loan worth USD 8.4 million from BlueOrchard Microfinance Investment Managers of Switzerland. Green Bank holds a loan portfolio of USD 33.6 million. June 10, 2009

Indian Fund Managers Optimistic

India's *Financial Chronicle* quotes Caspian Advisors investment director Mona Kchawa as saying, "Mainstream investors are [now] turning positive on the Indian microfinance sector following the improvement in the global equity markets and political stability." MVA Ventures managing director Anal Jain, said "The fund flow from the charity foundations would improve sooner, however commercial investors would take a longer time to return to microfinance." June 10, 2009

Zurich, BancoSol to Offer Life Insurance to Bolivians in Spain

Bolivian microfinance bank BancoSol and Zurich Bolivia, a unit of Zurich Financial Services, are jointly offering life insurance to Bolivian emigrants in Spain. The cheapest plan - at the equivalent of USD 57 per year - offers life insurance coverage of USD 10,000 plus the return of the body to Bolivia. Other plans cover home expenses for the family for one calendar year and up to USD 300 per year towards the cost of education for two children. Zurich Bolivia and BancoSol have a history of partnership that includes the launching of a credit life product, SolSeguro, in 1999. BancoSol reports 161,626 borrowers and a gross loan portfolio of USD 294.3 million. June 9, 2009

Habitat for Humanity to Establish \$70m Micro-Housing Fund

Habitat for Humanity International has received a USD 100 million gift from board member J. Ronald Terwilliger. The nonprofit estimates that this donation will improve housing conditions for 60,000 families. Over five years, Habitat will deploy USD 70 million of the gift to establish a global fund for housing microfinance. Details regarding the functioning of the fund and its geographical focus have not been released. For fiscal year 2008, nonprofit Habitat reports total net assets of USD 226 million and 23,645 housing units built, 9,849 rehabilitated and 21,965 repaired. June 9, 2009

New Subsidies for Ratings!

The Inter-American Development Bank's Multilateral Investment Fund (MIF) and Corporacion Andina de Fomento (CAF) have announced that they will assist small Latin American microfinance institutions (MFIs) in obtaining credit risk ratings and performance assessments. The effort will give priority to MFIs with loan portfolios between USD 1 million and USD 15 million, with average loans not exceeding USD 3,000. The MIF will provide a grant of USD 986,161, CAF will provide USD 200,000 and participating MFIs will provide USD 400,000. June 9, 2009

Triodos, MicroEnsure, Root Capital Among FT Award Winners

The *Financial Times* newspaper and the International Finance Corporation have announced the winners of their 2009 Sustainable Banking Awards. Triodos Bank of the Netherlands was named Sustainable Bank of the Year. Other winners included MicroEnsure for "Achievement in Basic Needs Financing" and Root Capital for "Achievement in Banking at the Bottom of the Pyramid." The winners were selected from 165 entries from 42 countries. Please refer to <http://MicroCapital.org> for a summary of the *Financial Times*' special report on sustainable banking that was released in conjunction with the awards. June 9, 2009

Study: Most Microcredit Loans Not Used to Grow Businesses

A recent article in British daily *Financial Times* reports: "Stuart Rutherford, the author of several books about a system hailed for enabling the very poor to build sustainable businesses, has led a three-year research project into the way borrowers in Bangladesh used loans. He says that the microcredit industry has been 'discovering and acknowledging,' in recent weeks that fewer than half of borrowers invest in grassroots businesses. But microlenders have kept quiet about this, 'pragmatically realising that the rags-to-riches-through-microenterprises story was valuable to the industry as a whole.' About 50 to 60 percent of the money borrowed under all microcredit loans does go into small businesses, Mr Rutherford estimates, but such loans are accounted for by fewer than half of borrowers. Shafiqul Haque Choudhury, president of ASA...disagrees...." June 9, 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!



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Peter Wall and MIX - Thank You for Your Service

Microfinance Information Exchange (MIX) Executive Director Peter Wall is leaving the nonprofit information clearinghouse effective June 30, 2009. This newspaper applauds his achievements and those of the entire organization. June 5, 2009

International Finance Corporation Invests \$514m in MSMEs

The International Finance Corporation (IFC), a member of the World Bank Group, provides investment and advisory services to developing countries. During 2008 the IFC invested USD 513.8 million in micro-, small and medium-sized enterprise initiatives and provided related advisory services valued at USD 840,000. Over the next three years the IFC will invest USD 150 million in the USD 500 million Microfinance Enhancement Facility with the aim of assisting private enterprises in coping with the global financial crisis. For details on IFC's 2008 investments, please refer to <http://MicroCapital.org>. June 5, 2009

New Cambodian Microfinance Institution to Offer Housing Loans

Cambodian daily *Phnom Penh Post* reports that First Finance - a new joint venture between Phillip Capital Group of Singapore and unnamed individual Cambodian investors - will issue loans for home purchase and construction despite the continuing downturn and an uptick in delinquent loans. First Finance CEO Talmage Payne said, "We are going to offer a product that the other [microfinance institutions] are not touching - loans for house purchasing." First Finance will offer terms of up to 15 years, with a median loan size of USD 14,000. June 5, 2009

Gates Touts Microsavings

In US magazine *Newsweek*, Melinda Gates of the gigantic Gates Foundation discussed the value of savings accounts to poor people: "Earlier this year I met with a group of women in...Tanzania.... The women said their babies were getting sick from malaria, and they could afford the drugs if they saved money over time - but with no access to formal savings accounts, they had a hard time safeguarding cash. So they saved in risky and inefficient ways. They made loans to each other, or bought goats or jewelry, then sold them if they suddenly needed money.... One exciting trend is agent banking, in which stores and post offices serve as banking outlets.... The phenomenal growth of mobile phones in the developing world presents another opportunity...mobile-phone cash transfer...." June 3, 2009

Indian Banks Innovate in Microfinance Institution Partnerships

Indian magazine *Outlook Business* reports that commercial banks in India are looking to cash in on the "unbanked" in more creative ways than simply lending wholesale to microfinance institutions (MFIs). For example, ICICI Bank is developing a "microfinance factory" in collaboration with the Institute of Fundamental Management and Research, which will "provide all the building blocks critical to MFIs, such as seed capital, operation models, product development, technology support and human resource training." June 3, 2009

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Half of PlaNet Guarantee Reportedly Bought for \$1.6m

Various sources have reported that Malakoff Mederic and BNP Paribas will each pay the equivalent of USD 828,000 for 25 percent stakes in PlaNet Guarantee, a French firm that analyzes risk and designs microinsurance products. PlaNet Guarantee has also announced plans to expand its microinsurance schemes throughout the Middle East and North Africa, indicating satisfaction with its 2008 partnership with Allianz Group and First Microfinance Foundation (FMF) of Egypt, which offers death and disability insurance to its borrowers. Claims are paid by Allianz to FMF to cover outstanding loan balances, with the remainder of the benefit forwarded to the borrower or next of kin. In this way, microinsurance schemes protect both the microfinance institution (MFI) and the borrower. PlaNet Guarantee serves 70,000 microinsurance policyholders via 10 partner MFIs in 6 countries. Allianz Group serves 75 million customers, including roughly one million microinsurance policyholders. June 2 and June 3, 2009

Tata, Micro Housing Finance Corporation Partner in India

Tata Housing Development Company, a subsidiary of the massive conglomerate Tata Group, and the Micro Housing Finance Corporation (MHFC) - both of India - have partnered to offer low-cost housing. Tata is building a large residential complex, and MHFC will provide mortgages to buyers of the 300 to 500 square foot units that will each cost USD 8,300 to USD 14,200. Founded in 2008, MHFC extended 1500 mortgages worth about USD 10 million during its first year of operation. MHFC offers loans of up to USD 10,600, with interest rates ranging from 12 to 14 percent and a 75 percent loan to value ratio. The target customer would earn a minimum of USD 212 per month and make monthly loan payments of USD 85 for 15 years. The weekly newspaper *The Economist* wryly comments that the anticipated boom in Indian "nano" flats or apartments comes suspiciously soon after the subprime mortgage meltdown. June 2, 2009

Spandana of India Seeks to Raise \$63m, Open Hospitals

Indian newspaper *Economic Times* reports that Spandana Spoorthy Financial Limited is in talks with dozens of investors to raise the equivalent of USD 63.7 million in equity funding and that after the transactions, "The company's valuation could be over Rs 1,800 crore [USD 382 million]." Current stakeholders - which would see their shares diluted under the deal - include Mumbai-based JM Financial, with an 18 percent share; private equity fund Valiant with 11 percent; Lok Capital with 5 percent; and senior employees that hold a total of 15 percent. It has also been announced that Spandana Spoorthy's nonprofit affiliate Spandana Society plans to invest USD 637,000 each in several hospitals, where patients will have access to microfinance services. Spandana Spoorthy reports 1.2 million active borrowers, a gross loan portfolio of USD 182.2 million, total assets of USD 208.9 million, a debt-equity ratio of 8.56, return on equity of 53.62 percent and return on assets of 4.34 percent. June 2, 2009

First Microfinance Bank of Afghanistan Talks With MicroCapital

To read this interview about the housing finance and other work of First MicroFinance Bank of Afghanistan, a unit of Aga Khan Agency for Microfinance, please refer to <http://MicroCapital.org>. June 2, 2009

Poverty Action Lab Concludes Microfinance "Comes Up Short"

An article on the World Bank Private Sector Development Blog reviews a recent Poverty Action Lab study: "The verdict is in on microfinance, and it's not pretty. The results from the first large-scale randomized trial of access to microfinance indicate that it comes up short in many areas of human development. 52 of 104 slums in Hyderabad were randomly selected to receive new branches of a microfinance outfit called Spandana...." The results in "The Miracle of Microfinance? Evidence from a Randomized Evaluation" state, "While microcredit succeeds in affecting household expenditure and creating and expanding businesses, it appears to have no discernible effect on education, health or women's empowerment." June 2, 2009

Kenya to Amend Regulations to Expand Financial Inclusion

Speaking at a recent conference on mobile banking, Kenyan Finance Minister Uhuru Kenyatta announced proposed amendments to Kenya's Banking Act that would enable commercial banks to develop branchless banking options via non-banking agencies, such as microfinance institutions (MFIs), to reach those without access to financial services. Non-bank mobile money transfer services have grown quickly in Kenya, raising concerns about client protections. Central Bank of Kenya Governor Njuguna Ndung'u asked savings and credit cooperative societies and other MFIs engaged by the commercial banks to consider using mobile banking to lower prices for customers. Along these lines, Safaricom recently announced a partnership with Small and Micro Enterprises Program, enabling the MFI's 51,000 customers to use Safaricom's M-PESA service to make loan payments and savings deposits. June 1, 2009

SHARE Microfin of India Seeks to Raise \$50m

SHARE Microfin, a microfinance institution based in India, has announced plans to raise USD 50 million in equity funding. SHARE is reportedly in talks with potential investors including the International Finance Corporation. Other possible investors include Lightspeed Venture Partners, Battery Ventures and India Value Fund. SHARE offers microenterprise loans, personal loans, money transfer services, credit life insurance and health insurance. SHARE reports 1.87 million members, 4,259 employees, 766 branches, a gross loan portfolio of USD 151 million, total assets of USD 189 million, a debt-equity ratio of 5.4 percent, return on assets of 1.10 percent and return on equity of 8.33 percent. June 1, 2009

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Pakistan Adds Incentive to Guarantee Facility

The State Bank of Pakistan (SBP) has announced that it will provide a 25 percent first-loss guarantee for loans under its Micro Credit Guarantee Facility to further encourage commercial banks to provide wholesale funds to microfinance institutions (MFIs). The facility was introduced in 2008 but was met with an unenthusiastic response despite a 40-percent principal guarantee. Banks and development finance institutions now will have the option of choosing either the first-loss guarantee - covering loan principal repayment gaps of up to 25 percent of the amount of the loan - or the 40 percent principal guarantee that covers 40 percent of the entire loss incurred. The amounts lent by banks will also be deductible from each bank's statutory liquidity and cash reserve requirements, so banks will not be required to set aside additional reserves for these loans. The guarantee facility was originally launched with a grant equivalent to USD 16.2 million from the UK Department of International Development. June 1. 2009

PlaNNet Finance UAE to Launch Microfinance Institution in Oman

PlaNNet Finance United Arab Emirates, a unit of the French NGO PlaNNet Finance Group, plans to launch a microfinance institution in the Sultanate of Oman. The joint stock company is supported by the Ajit Khimji Group of Oman, MB Holding Company, philanthropist Samir Fancy and the Omani Ministry of Social Development. Organizers are seeking an initial investment of USD 3.4 million and concessionary and commercial loans of USD 15 million. June 1. 2009

Lebanese Conference Examines Microfinance Market

At a recent conference in Lebanon, General Manager Ziad Halabi of microfinance institution Ameen said that, despite his institution's growth by 40 percent in 2008, 72 percent of the Lebanese market remains unmet. A 2008 study pegged Lebanon's potential customer base at 190,000 clients. Ameen reports a gross loan portfolio of USD 10.6 million and 11,238 clients. The Microfinance Information Exchange lists two other NGOs operating in Lebanon: Al-Majmoua with a gross loan portfolio of USD 9.3 million and 12,017 clients and Makhzoumi with a gross loan portfolio of USD 426,447 and 423 borrowers. June 1. 2009

Urwego Opportunity Bank of Rwanda Reaches \$5.2m in Loans

Urwego Opportunity Bank, a Rwandan commercial bank with a focus on microfinance, has announced that its loan portfolio has reached USD 5.2 million, an increase of 73 percent since 2006. The increase has been attributed to the growth in its savings portfolio, which now stands at USD 2.6 million. Savings is an attractive source of funding for many microfinance institutions because of its low cost. With assets of USD 7.5 million, 35,349 borrowers and 49,481 savers, Urwego operates in 27 of the 30 districts in Rwanda. Its major shareholders are nonprofits, including Opportunity International, World Relief Corporation, HOPE International and World Relief Canada. May 29. 2009

Jonathan Lewis of MicroCredit Enterprises Speaks at Stanford

At the recent California Microfinance 2009 conference, MicroCredit Enterprises CEO and Founder Jonathan C. Lewis asked: "Is microfinance a viable asset class or a social movement? Are we advocates for the poor or advisers to the well-off? Who do we want as our literary role model? Don Diego de la Vega (aka Zorro)? Don Quixote? Or Don Corleone? ...At its core, microfinance is overturning 10,000 years of free market bad behavior - from slavery to debt bondage, from company towns to global cartels, from discriminatory banking to predatory pricing - the list is shamefully long." May 29. 2009

World Bank Commits \$85m to MSME Project in Ghana

Two World Bank units have committed to funding the majority of a USD 118.9 million micro-, small and medium-sized enterprise project in Ghana, of which USD 3.21 million was disbursed during the year ending June 2008. Funding for the project will come from the International Development Association (USD 45 million), International Finance Corporation (USD 40 million) and the government of Ghana (USD 1.9 million), with the remainder to be sought from other foreign sources. Since its inception in 2007, the project reports having created 2,081 full-time jobs and sped up business registrations and import/export procedures. May 28. 2009

Eastern Europe Hit Worst By Slowdown

A recent story from news service Reuters on the credit shortage in microfinance cites Women's World Banking CEO Mary Ellen Iskenderian and a March survey from CGAP (Consultative Group to Assist the Poor) in stating that Eastern Europe has been the most impacted. The story reads: "Repayment rates have fallen to 'high 80s to low 90s,' percent, from traditional levels of 97 to 98 percent, with the steepest fall seen in Eastern Europe, Iskenderian said." In other parts of the world the slowdown has apparently been less painful: "My network member in Bangalore...is holding his head in his hands and is very sad that he is only going to grow by 100 percent in 2009 and has had to reduce his projections from 300 percent," she said." May 28. 2009

PT Danamon Optimistic About Microfinance Growth

PT Bank Danamon of Indonesia has announced that its loan growth may exceed 10 percent in the second quarter after key economic indicators painted a better-than-expected picture for 2009. According to Danamon President Sebastian Paredes, medium-term loan growth will likely center around microfinance, consumer lending and small and medium-sized enterprises. Launched in 2004, Danamon's microfinance arm, Danamon Simpan Pinjam, provides 65 percent of Danamon's profit. Temasek Holdings of Singapore and Deutsche Bank hold a majority of PT Bank Danamon's shares. The bank reports total assets equivalent to USD 10.2 billion and a gross loan portfolio of USD 6.2 billion. May 26. 2009

Sahara Mutual Fund of India Launches Microsavings Scheme

Sahara Mutual Fund has applied to the Securities and Exchange Board of India to create the Sahara Daily Fund, a microfinance saving scheme aimed at daily wage earners, which will allow minimum deposits equivalent to USD 0.20. The Daily Fund will invest in debt and debt-related instruments to maintain low risk. The fund will charge an entry load of 2.25 percent and an exit load that ranges from 1 percent for redemptions within one year to zero after two years. The fund's parent, Sahara Asset Management Company, reports total assets of USD 3.97 million. May 25. 2009

Four of Five Pro Mujer MFIs Report Self-Sufficiency

A recent BBC article on Lynne Randolph Patterson, Co-Founder of Pro Mujer, reports that the microfinance network is now self-sustaining in four of the five countries in which it operates and that, "microfinance is not a panacea for poverty and has its limits.... 'It's not perfect but it's hard to think of a more effective way to support women.'" May 22. 2009

Heavy Hitters Launch \$15b Joint Action Plan for Africa

Seven international financial institutions have announced a Joint Action Plan for Africa to respond to the global downturn. At the recent annual meeting of the African Development Bank in Senegal, the organizations jointly pledged to increase commitments by at least USD 15 billion over the next three years. The Joint Action Plan allocates significant funding to strengthen the financial sector and support micro-, small and medium-sized enterprises in addition to promoting trade and increasing funding for infrastructure and agribusiness. The effort will be implemented by the African Financing Partnership, a young funding pool that aims to enhance the efficiency of complex financings in Africa. Participating institutions include Agence Francaise de Developpement, the Development Bank of Southern Africa, the European Investment Bank, the German Federal Ministry for Economic Development and Cooperation (BMZ), the Islamic Development Bank and the World Bank. May 21. 2009

CredAgro of Azerbaijan Joins IFC Corporate Governance Project

The International Finance Corporation (IFC) has announced that microfinance institution CredAgro will join its Swiss-funded Azerbaijani Corporate Governance Project, which offers advice and training to directors, managers and key shareholders of the institution. IFC will also help revise corporate documents and improve information disclosure, internal control and internal audit functions. CredAgro reports 13,773 active borrowers, a gross loan portfolio of USD 50.3 million and return on assets of 8.01 percent. May 21. 2009

Cambodia's Non-Performing Loan Ratio Rises Again

Cambodian Microfinance Association President Huot Ieng Thong has announced that non-performing loans at Cambodian microfinance institutions (MFIs) rose to 2.5 percent from around 1 percent during the first four months of the year. This is in contrast to less than 1 percent during 2008. Mr. Thong added that - since the financial downturn - MFIs have increased the interest rates they charge, as international lenders have increased annual wholesale rates from 8 to 9 percent during 2008 to 10.5 to 12 percent. Whereas interest rates are normally lowered by governments in rich countries during economic slowdowns to encourage growth, rates generally increase in undeveloped markets because much of the credit supply comes from international sources that calculate an increased risk of default. May 19. 2009

MFIs in Middle East & North Africa Lightly Affected by Downturn

A recent article in Lebanon's *The Daily Star* cites Bob Annibale, Global Head of Microfinance at Citigroup, as saying that microfinance in the region has proven to be very resilient so far to the global downturn, but that, "We shouldn't be complacent as we look ahead..." The article further cites Mr Annibale saying that about two thirds of microfinance institutions are experiencing declining loan portfolios and that about the same number are experiencing increasing portfolio-at-risk ratios: "We don't see that this is alarming... [T]he reason might be some of the rapid growth that we have seen in last few years, not particularly a result of the financial crisis." In addition, the importance of accessing diverse local funding sources is noted. May 18. 2009

World Bank, Nigeria to Grant \$8m to Six Microfinance Institutions

At a recent event organized by the World Bank's Micro, Small and Medium Enterprises Project in Lagos, the Nigerian government and the World Bank announced the approval of grants totaling USD 8.4 million to six microfinance institutions: ACCION Microfinance Bank, Susu Microfinance Bank, Integrated Microfinance Bank Limited, MIC Microfinance Bank, LFS and MicroCredit. May 18. 2009

Indian Credit Guarantee Fund Seeks to Back \$450m in Loans

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGF) guaranteed USD 343 million in microloans during 2008 and has allocated USD 451 million for 2009. Established by the government of India, CGF gives guarantee payments to lending institutions to allow microentrepreneurs to obtain collateral-free loans. If a borrower defaults, CGF compensates the lender for up to 85 percent of the loan. CGF CEO O S Vinod stated, "What we are trying to tell the banks is - you don't appraise the collateral, but the project. If the project is good, then the second issue of collateral comes in and we will step in." May 18. 2009

Tanmeyah Microfinance Company Launched in Egypt

A new microfinance company, Tanmeyah Micro Enterprise Services, will be launched in Egypt with a focus on serving businesses in rural areas that have been operating for at least one year. It is anticipated that 15 branches will be opened within the first three months of operation with a plan to grow to 400 branches, which will eventually offer microinsurance, brokerage services, money transfers and automated teller machines. Tanmeyah is currently finalizing an agreement to receive USD 85.7 million for on-lending from publicly-traded Egyptian Gulf Bank (EGB), which reports total assets of USD 5 billion. Finance Unlimited will own 51 percent of Tanmeyah, Citadel Capital will own 25 percent and EGB will hold 24 percent. Finance Unlimited is an affiliate of Citadel Capital, an Egyptian private equity firm with USD 8.3 billion of investments under its control. May 15. 2009

MFIs Should Broaden Financial Services, Survey Says

A survey of 150 microfinance institutions and investors conducted by Intelicap's magazine *Microfinance Insights* indicates that 85 percent of microfinance institutions (MFIs) and 61 percent of microfinance investors say MFIs should offer non-financial services. Of the MFIs polled, 79 percent offer "products and services that are consciously seeking to create social impact beyond simple financial inclusion." Over 83 percent of the MFIs polled said their primary goal was poverty alleviation, and 78 percent stated that their main objective was women's empowerment. Relative to financial return, 47 percent of investors rated social return equally important, but concerns remain over how to measure social impact. May 15. 2009

Indonesian-German Partnership Offers Flood Microinsurance

Indonesian insurer Asuransi Wahana Tata (AWT), German reinsurer Munich Re and German development agency GTZ have launched the Alert 1 Manggarai Protection Card, which offers microinsurance against flood losses. The card costs the equivalent of USD 4.70 and offers a single payment of USD 23.90. "Alert 1" is the designation given floods wherein water rises 950 centimeters at the Jakarta Manggarai Water Gate. AWT reported total assets of USD 68.6 billion for 2007. May 15. 2009

Symbiotics Spins Off Consulting Arm, Partners with LuxFLAG

Symbiotics SA, the Swiss investment advisor and microfinance information provider, has spun off its Luxembourg consulting arm, Innpect Sarl and also has announced a collaboration with the nonprofit Luxembourg Fund Labelling Agency (LuxFLAG). The management buyout of Innpect Sarl occurs after a two-year collaboration among Symbiotics and Innpect's founders. May 15. 2009

ACCION CEO Maria Otero Appointed US Undersecretary of State

US President Barack Obama has nominated Maria Otero to serve as Under Secretary of Democracy and Global Affairs for the US Department of State. Born in Bolivia, Ms Otero has been with ACCION since 1986 and became CEO in 2000. May 14. 2009

VG Microfinance CDO Notes Downgraded by Fitch

Fitch Ratings has downgraded VG Microfinance-Invest Nr. 1 GmbH senior CDO notes to BB+, with a negative outlook, as a result of local political uncertainty and the sharp asset deterioration of Nicaraguan microfinance institution Asociacion de Consultores para el Desarrollo de la Pequena, Mediana y Microempresa (ACODEP). ACODEP currently represents 8.8 percent of the portfolio, which contains subordinated credit exposure against 20 microfinance institutions in 15 jurisdictions. The institutions were selected by Deutsche Bank AG in its role as seller and protection buyer for the transaction. Fitch also expressed concern that the portfolio may suffer due to the recent devaluation of Eastern European and Asian currencies. On the bright side, Fitch reckons the credit risk associated with the majority of the portfolio has improved slightly and that the notes should be able to withstand the default of 5 to 6 names without incurring a loss. May 14. 2009

Enda Inter-Arabe Rolls Out Mifos MIS Platform to 52 Branches

Enda Inter-Arabe of Tunisia has implemented Mifos, an open source (free and customizable) management information system for microfinance institutions that was developed by Grameen-Jameel Pan-Arab Microfinance Limited and the US-based Grameen Foundation. Enda reports 104,000 active borrowers and a gross loan portfolio of USD 34 million. May 14. 2009

Ethiopian Microfinance Institution Loan Portfolios Total \$415m

In celebration of its tenth anniversary, the Association of Ethiopian Microfinance Institutions has planned various events and announced that its 29 members serve a total of 2.2 million active borrowers, hold an outstanding loan portfolio equivalent to USD 415 million and secure savings totaling USD 141 million. May 13. 2009

Filipino Central Bank Encourages Microfinance Growth

The Bangko Sentral ng Pilipinas - in an attempt to reduce the impact of the global slowdown - has: (1) partially lifted a moratorium on the issuance of licenses for new thrift and rural bank branches in order to accommodate microfinance-oriented banks, (2) opened a rediscounting facility to refinance the loan portfolio of microfinance-oriented banks and (3) provided incentives for microfinance-oriented banks to expand their reach in under-served areas. In addition the Bangko Sentral has established dedicated microfinance groups to assist with policy development and technical support. May 13. 2009

UN International Fund for Agriculture Loans \$13m to Cameroon

The United Nations International Fund for Agriculture (IFAD) will support rural microfinance in Cameroon with a USD 13.5 million loan and USD 200,000 grant. The funding, along with USD 2.6 million from the Republic of Cameroon and USD 5.9 million from microfinance institutions, will support the IFAD Rural Microfinance Development Support project, which aims to improve the livelihoods of poor people in rural areas over a six-year period. May 13. 2009

African, Dutch Groups Open West Africa Fund Targeted at \$50m

Alitheia Capital, Goodwell Investments and JCS Investments Limited have opened a fund targeted to invest USD 50 million in commercial, long-term capital to support the start up and growth of MFIs in Nigeria and Ghana. May 12. 2009

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MICROFINANCE DEALBOOK

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TOP MAY 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
European Fund for Southeast Europe	Komercijalna Banka	ECA	27,800,000	Debt
Public Offering	SKS Microfinance	SA	15,800,000*	Debt
UN International Fund for Agriculture	Rural Microfinance Development Support	SSA	13,500,000	Debt
Islamic Development Bank	Development and Employment Fund	MENA	10,000,000	Debt
Microfinance Enhancement Facility (responsAbility)	ProCredit Ecuador	LAC	8,955,555	Debt
International Finance Corporation	Caja Nuestra Gente	LAC	7,400,000	Equity
Dexia Micro-Credit Fund (BlueOrchard Finance)	Khan Bank	ECA	5,000,000	Debt
Microfinance Enhancement Facility (responsAbility)	FINCA Azerbaijan	ECA	4,975,479	Debt
Co-operative Bank, Deutsche Bank & Oikocredit	Global Co-operative Development Fund	WW	3,500,000	Debt
Finance Unlimited	Tanmeyah Micro Enterprise Services	MENA	3,162,000	Equity
Microfinance Enhancement Facility (BlueOrchard Finance)	Microinvest	ECA	3,000,000	Debt
Microfinance Enhancement Facility (BlueOrchard Finance)	Confianza	LAC	3,000,000	Debt
Microfinance Enhancement Facility (BlueOrchard Finance)	Eskhata Bank	ECA	3,000,000	Debt
Microfinance Enhancement Facility (BlueOrchard Finance)	FDL Nitlapan	LAC	3,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	ProCredit Moldova Bank	ECA	3,000,000	Debt
VDK Spaarbank	Mibanco	LAC	3,000,000	Debt
responsAbility Global Microfinance Fund	Confianza	LAC	3,000,000	Debt
Microfinance Enhancement Facility (responsAbility)	FINCA Kyrgyzstan	ECA	2,985,288	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	AgroInvest	ECA	2,694,000	Debt
African Development Bank	K-Rep	SSA	2,200,000*	Unspecified
Vision Microfinance Fund (Absolute Portfolio Management)	CMAC Paita	LAC	2,000,000	Debt
responsAbility Microfinance Leaders Fund	FINCA Georgia	ECA	2,000,000	Debt
Citadel Capital	Tanmeyah Micro Enterprise Services	MENA	1,550,000	Equity
Egyptian Gulf Bank	Tanmeyah Micro Enterprise Services	MENA	1,488,000	Equity
Oikocredit	ASKI	EAP	1,340,950*	Debt
responsAbility Global Microfinance Fund	Edpyme Alternativa	LAC	1,314,901*	Debt
Oikocredit	Crac Profinanzas	LAC	1,144,600*	Debt
Oikocredit	Edpyme Alternativa	LAC	1,144,600*	Debt
Vision Microfinance Fund (Absolute Portfolio Management)	Sinergija	ECA	1,042,000	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

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



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MEET THE BOSS

Jean-Pierre Klumpp has been Chief Executive Officer of BlueOrchard Finance since 2008.

Jean-Pierre Klumpp

MicroCapital: Would you please tell us about the history of BlueOrchard?

JPK: The Dexia Micro-Credit Fund (DMCF), which we manage, was launched in 1998 by Dexia Asset Management. Jean-Philippe de Schrevel, at the time a financial analyst fully dedicated to this fund, founded BlueOrchard Finance in 2001 with two partners and took over the management of the microfinance portfolio for the DMCF. With just a little more than USD 10 million under management at the beginning, BlueOrchard started an impressive ascent to about USD 1 billion assets and eight microfinance investment vehicles under management today.

Gradually, the company went through some changes like many successful startups. Jack Lowe, an experienced businessman and financier, was appointed as CEO and brought BlueOrchard even closer to the capital markets. That's when our three renowned securitizations were set up - firsts in the microfinance sector. Beyond the continued success of the DMCF, this innovation really gave BlueOrchard a greater magnitude.

In 2007, we entered a third chapter, with the introduction of our Private Equity Fund, which we manage alongside several debt and structured products. An important mark of BlueOrchard's identity is being a multi-product microfinance asset manager.

MC: What is the current scale of BlueOrchard's work?

JPK: BlueOrchard Finance presently has over USD 830 million total assets under management. The Private Equity Fund managed by BlueOrchard Investments can currently count on USD 131 million. We work with around 140 partner microfinance institutions (MFIs) in about 40 countries worldwide.

MC: Please describe BlueOrchard's products and funds.

JPK: The Dexia Micro-Credit Fund is the largest fund, with USD 477 million in assets under management as of May 2009. The fund currently covers over 30 countries and nearly 100 MFIs and has disbursed more than 600 loans since inception. About 15 percent of its loans are made in local currencies. We estimate that over 400,000 clients are reached by funding provided by the DMCF.

The Saint-Honoré Microfinance Fund was designed for the Rothschild Bank. Assets under management currently amount to EUR 10 million.

The BBVA Codespa Microfinance Fund is a regional fund focused on Latin America with some of the funding performed in local currencies. BlueOrchard is advisor for the microfinance portfolio. The fund recently received a substantial subscription from CAF (Andean Development Corporation), a regional development bank, and we are in the process of deploying these funds. Assets under management amount to EUR 28 million.

Our collateralized debt obligations (CDOs) are closed-end structured finance products. We launched three CDOs between 2004 and 2007 for a total of USD 277 million. BOLD 2 won the *Financial Times* and IFC "Sustainable Deal of the Year" award in 2008.

The Microfinance Enhancement Facility (MEF) was launched early this year by the IFC and KfW in order to provide funding to qualifying

MFIs in a crisis environment. BlueOrchard was chosen as one of three fund managers that will help the two institutions in deploying these funds.

MC: What is BlueOrchard's investment philosophy?

JPK: We invest - through MFIs - in the income-generating activities of microentrepreneurs and in the provision of financial services to those previously excluded from the financial system. We are convinced of the merits of a for-profit approach to complement other approaches targeting the base of the pyramid. Just as their end-borrowers have to become autonomous through the profit they gain from the funded activity, so the MFI should also become profitable and show decent financial indicators, in order to access more and cheaper funding and be able to grow. Investors should obtain both a financial and a social return for their investments. And we as a company should also be profitable, so as to continue to be able to offer interesting and innovative investment products, while safekeeping the social impact that is associated with the work we do.

MC: What can you tell us about your returns to investors and your price of capital to MFIs?

JPK: The borrowing rate to MFIs is composed of a base rate (often US LIBOR at 6 months) and a margin of several points that varies depending on the risk profile of the institution and on the market situation. Investors receive the collected interests less the expenses for the management of the fund. Last year the US dollar share of the DMCF provided a return of 5.3 percent. In absolute terms, these are quite attractive returns. In relative terms, these returns were well above those of many other investment schemes in the - admittedly unusual - context of 2008.

I like to imagine that by 2050 a Nobel Prize winner for groundbreaking research in energy production might be the grandson of a microentrepreneur in what used to be called a developing country.

MC: Do you have any opinions on the current economic environment?

JPK: The direct and indirect impacts of the crisis on microfinance are a central issue for all actors involved in the sector. The potentially critical dimensions have been identified, such as currency related-risks, the loss of remittances, etc. While the impacts are real and sometimes severe, we believe that the sector overall is weathering this period quite well, considering the magnitude of the financial and economic crisis worldwide. Through our close contacts with partner MFIs and the monthly data we collect, we see some slight signs of deterioration here and there, but overall the MFIs are intelligently steering through these very turbulent times. On the other hand, the investors remained true to their long-term commitments towards microfinance, even during the stressful last months of 2008.

(Continued on page 14)

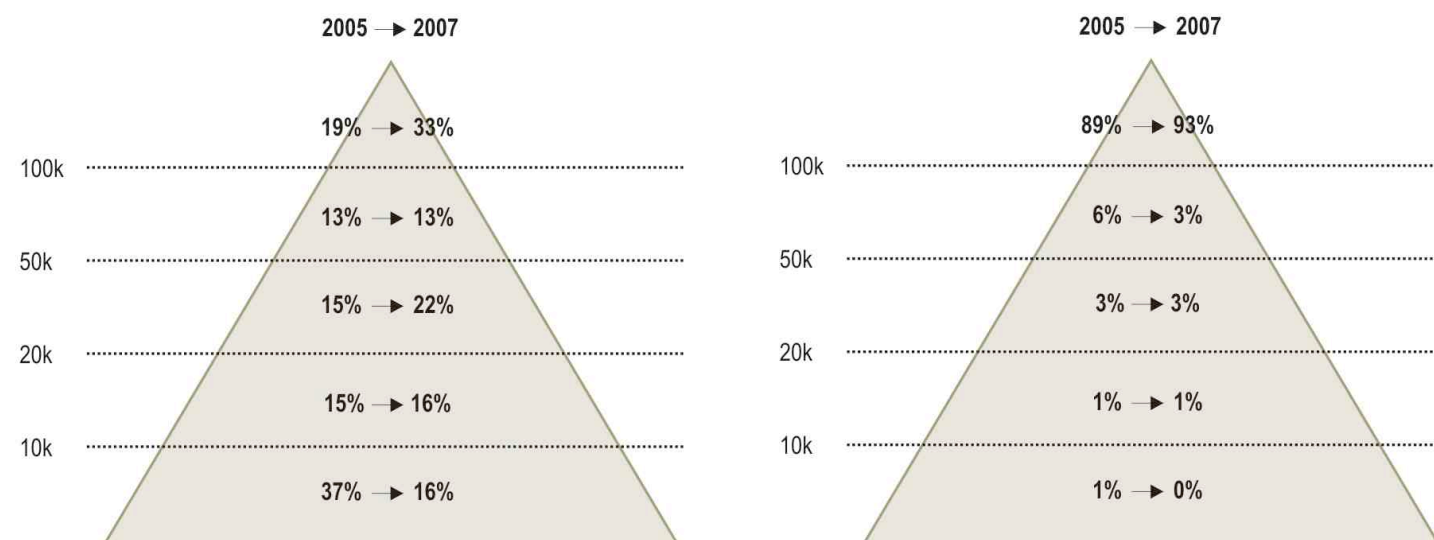
MICROCAPITAL MARKET INDICATORS | SOUTH ASIA

 134 MFIs REPORTING FROM 6 COUNTRIES¹

 Afghanistan Nepal
 Bangladesh Pakistan
 India Sri Lanka

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
Bangladesh Rural Advancement Committee	Bangladesh	128,283,904	40	264,603,360	521,171,168
SKS Microfinance Private Limited	India	123,207,398	264	20,151,428	266,566,224
Spandana Sphoorty Financial Limited	India	57,163,170	68	63,010,716	177,337,056
Grameen Bank	Bangladesh	52,672,928	12	424,536,608	529,882,464
ASA	Bangladesh	51,487,392	19	254,277,216	357,252,000
Bandhan (Society and NBFC)	India	37,856,439	219	8,235,162	83,948,040
SHARE Microfin Limited	India	36,614,456	38	81,264,240	154,493,152
Shri Kshetra Dharmasthala Rural Development Project	India	31,313,510	90	24,114,900	86,741,920
Asmitha Microfin Limited	India	22,835,492	47	39,465,512	85,136,496
Kashf Foundation	Pakistan	19,489,748	100	12,943,861	51,923,356

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

Mobile Money Summit 2009

June 23 - June 24, 2009, Barcelona, Spain

This event provides a showcase of markets, new solutions and lessons learned from around the world. It is organized by the GSMA, which represents the interests of the worldwide mobile communications industry. Registration fees are USD 1,599, plus 16% VAT, with a USD 400 discount for GSMA members. More information is available at <http://www.mobilemoneysummit.com/>, +44 (0)20 7759 2300 or +1 678 281 6600.

Second Annual Forum on Prepaid Card Compliance

June 23 - June 24, 2009, Washington, DC, USA

This event, themed "Legal and Practical Guidance for Structuring Products and Mitigating Risk," will feature regulatory officials, compliance experts and legal staff discussing fraud deterrence, insolvency risks, obtaining non-public personal information and unclaimed property laws. The conference fee is USD 2195, plus the cost of any add-on classes. More details are available via +1 212 352 3220 or <http://americanconference.com/prepaidcard.htm>

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 official registration deadline was April 24. More details are available via Maria Johansson at +49 69 154008 617, m.johansson@frankfurt-school.de or http://www.frankfurt-school.de/content/en/intern_advisory/summer_academies_2009/micro_banking_summer_academy_2009.html.

Investments in Microfinance 2009:

Surviving the Liquidity Crisis and Ensuring Sustainable Growth

July 7 - July 8, 2009, London, UK

This event will explore how key microfinance institutions (MFIs) and funds are changing their strategies to ensure survival amidst the recession. Registration fees are EUR 1499, with add-on workshops and discounts available for MFI representatives and fund managers. More information is available via +44 (0) 203 178 3420 or <http://www.hansonwade.com/events/investments-in-microfinance/>.

Microfinance: The Investment Opportunity - CANCELLED

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

Pacific Microfinance Week 2009

July 13 - July 17, 2009, Nadi, Fiji

The Microfinance Pasifika alliance is organizing this series of events to raise awareness of microfinance and encourage cooperation in the Pacific region. Registration is free of charge, but the official deadline has passed. Microfinance Pasifika network members may apply for a travel subsidy. Additional information is available via +679 354 4305, info@microfinance-pasifika.org or <http://www.microfinance-pasifika.org/>.

Third Asia Insurance Review Microinsurance Conference

July 22 - July 23, 2009, Beijing, China

This conference, themed "Microinsurance as an Attractive Growth Strategy in the Changing Economic Landscape," will look at how Asia has embraced microinsurance and how the various markets are pushing microinsurance. The program will cover policy reforms, key challenges and how to support microinsurance in the current financial landscape. The early registration fee (available through June 26) is USD 980 for non-subscribers and USD 800 for subscribers. More details are available from Ms Michelle at +65 6372 3178, michelle@asiainsurancereview.com or http://www.asiainsurancereview.com/pages/conference_details.asp?id=124/.

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>.

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 cross-cutting. 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 industry to meet their colleagues and 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 foromic@iadb.org, +1 202 623 1000 or <http://www.iadb.org/mif/foromic>.

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. Attendees will discuss, debate and learn about issues critical to the industry's survival in these challenging times. 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>. 

MEET THE BOSS *(Continued from page 11)*

Jean-Pierre Klumpp

MC: What trends in the industry do you foresee?

JPK: The momentary, forced slowdown in most microfinance markets will allow the industry to tackle some negative side effects of its hyper-growth in recent years, like over-indebtedness, mission-drift, etc. Social impact measurement will also be progressively implemented, as it will be required by all public and private contributors. Beyond the crisis, a strengthened and more-capable microfinance industry will be able to grow again, as the demand remains vast.

Sustainable and socially responsible investments are gaining momentum in the current crisis context. Microfinance can be an integral part of these new schemes. If governments would gradually request their own investments to be done in a sustainable and socially responsible way, this could even open larger pools.

MC: What drives you personally?

JPK: I like to imagine that by 2050 a Nobel Prize winner for groundbreaking research in energy production might be the grandson of a micro-entrepreneur in what used to be called a developing country. 🇳🇵



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PAPER WRAP-UPS

The Impact of the Financial Crisis on Microfinance Institutions and Their Clients

By Xavier Reille, Christoph Kneiding and Meritxell Martinez, published by CGAP (Consultative Group to Assist the Poor), May 2009, 4 pages, available at: http://www.cgap.org/gm/document-1.9.34453/CGAPBrief_SurveyResults.pdf

In March 2009, over 400 microfinance institution (MFI) managers were surveyed on how the current financial crisis has affected their MFIs and their clients. The survey focused on which regions were most affected and why, whether MFIs are proving resilient to the financial crisis and whether the liquidity of MFIs will change because of the downturn.

MFI Clients Are Feeling the Effects

Borrowers are being affected by the economic downturn and 58 percent of MFI managers responded that their clients had been affected "somewhat." In Eastern Europe and Central Asia (ECA), clients are more affected than those in the Middle East and North Africa (MENA). Urban clients, especially in Latin America and the Caribbean (LAC) are the most affected.

Increases in food and fuel prices over the past 18 months have made it more difficult for borrowers to repay loans. 60 percent of respondents indicated that borrowers are finding it harder to repay. This is more significant in the ECA (75 percent) and LAC (67 percent) regions. In Asia and sub-Saharan Africa, 62 percent of respondents indicated that clients are spending more income on food compared to six months ago. To compensate for increased prices, clients are reducing their food intake or spending more of their income on food. Workers in manufacturing, small-scale trade and agriculture are the most affected by the increase in prices of food and production inputs.

Signs of Stress on MFIs

Gross loan portfolios have declined or held steady over the past six months, as 65 percent of MFIs. This is in contrast to the 47 percent increase in loan portfolios reported to the Microfinance Information Exchange during 2007.

69 percent of respondents stated that there had been an increase in portfolio-at-risk (PAR) ratios. In the ECA region 88 percent of surveyed MFIs reported increasing PAR. This is probably due to the increased economic hardship of borrowers.

Over the past six months, 52 percent of MFIs surveyed reported liquidity constraints. Smaller MFIs were affected more than larger MFIs, with 64 percent compared to 35 percent reporting problems with funding. Small and medium MFIs expect this situation to worsen, particularly in sub-Saharan Africa and South Asia.

MFIs with savings indicated that they are willing to expand loan portfolios in the coming months. Furthermore, 61 percent of MFIs are not passing on higher interest rates to clients and 9 percent reduced rates.

Outlook

Food prices will continue to rise with a corresponding drop in client repayment rates. Women and children will be hit the hardest as incomes also drop.

MFI managers report that they expect to continue to experience liquidity issues and credit risk concerns. However they appear to be optimistic about the future, believing that MFI performance will remain stable or improve over the next six months.

M-Bureaus: M-Banking's Next Killer Application?

By Alice Liu and Michael Mithika, published by USAID, April 2009, available at: <http://collab2.cgap.org/gm/document-1.9.34524/17.pdf>

The authors explore the possibility of using mobile phone payment transaction history to determine credit information for customers "at the bottom of the pyramid." Kenya is used as a case study due to its successful mobile-payment (m-payment) system. The authors worked on the assumption that most clients who make m-payments do not have access to banking services, but this assumption was proven to be false. In fact, a study by the Financial Sector Deepening Kenya (FSD Kenya) found that 70 percent of those who make m-payments use multiple banking services. However, this leaves 30 percent who do not use bank services and whose credit history may be determined through m-payments. Kenya's M-PESA m-payment system, offered by the mobile phone company Safaricom, was launched in 2007 and registered 2 million customers within one year of operation. Currently, 6 million of Kenya's 39 million people use M-PESA. By February 2009, the cumulative value of money transfers made through M-PESA was USD 1.5 billion. Zain Kenya brought competition to the sub-sector with its launch of the Zap m-payment platform in February 2009.

M-PESA records name, national ID number and date of birth for registered users, but this information falls short of the data required by credit reference bureaus. M-payment data does not include income or securities information. And although m-payments offer a history of bill payments, the actual due date for the payments is known only to the merchant and not to the payment platform. However, m-payments can be used to determine whether customers make regular bill payments. Income level can be inferred through the size and frequency of payments, but it is uncertain whether customers are making payments for themselves or for others. Monthly money transfers can indicate stability of income.

In Kenya, the two government bodies in charge of m-payments are the Central Bank of Kenya (CBK) and the Communications Commission of Kenya. However, the implementation of m-payment regulation systems is unclear. Because the 1998 Kenya Communications Act does not allow disclosure of customer transactions through m-payments, data is not currently available to credit reference bureaus or banks. CBK does not regulate M-PESA, although M-PESA provides monthly reports on a voluntary basis.

The authors conclude the report with a series of recommendations. They advise the Kenyan government to support m-payment platforms so that Kenyans who do not have access to banks may take advantage of mobile financial services. Additionally, they recommend that microfinance institutions be encouraged to use m-payments to gain a wider customer base. The authors also express the need for clearer government regulation of m-payments and for the incorporation of m-payment data into credit information systems. A possible topic for further study is an analysis of how well m-payment data predicts the credit rating of customers. Finally, the authors recommend the exploration of business incentives for m-payment providers and credit reference bureaus to share data.

Microfinance Funds Continue to Grow Despite the Crisis

By Xavier Reille and Jasmina Glisovic-Mezieres, published by CGAP (Consultative Group to Assist the Poor), April 2009, 4 pages, available at: http://www.cgap.org/gm/document-1.9.34437/CGAP%20Brief_MIV_FinancialCrisis.pdf

So far, microfinance funds have not been severely impacted by the global financial crisis. This report acknowledges that while emerging market funds have experienced a 20 percent sell-off, microfinance investment funds (MIVs) experienced positive returns in 2008. In fact, assets in the top ten microfinance investment funds grew by 32 percent in 2008. The report is based on: (1) a UBS report on the state of emerging markets, (2) research from CGAP (Consultative Group to Assist the Poor) and microfinance investment advisor Symbiotics on the top ten MIVs and (3) the historical performance of euro-denominated funds per the Symbiotics Microfinance Index EUR.

As of December 2008, there were 104 active microfinance funds, with total assets under management of USD 6.5 billion. The industry is very concentrated, with the top 10 funds holding about 60 percent of the asset base.

The International Finance Corporation (IFC), a member of the World Bank Group, as well as other development-oriented investors are presently active in the microfinance community and have been strengthening their portfolios in response to the credit crisis. Retail investors have also contributed to the growth of microfinance funds in 2008. For example one retail-oriented fund, the responsAbility Global Microfinance Fund, has increased by 17 percent since September 2008 and 96 percent for the year.

The top ten microfinance investment vehicles by assets under management (AUM) as of December 2008 are:

ProCredit Holding AG: USD 1.019 billion

European Fund for Southeast Europe: USD 745 million

Oikocredit: USD 632 million

Dexia Microcredit Fund (BlueOrchard Finance): USD 429 million

responsAbility Global Microfinance Fund: USD 378 million

SNS Institutional Microfinance Fund: USD 243 million

responsAbility SICAV (Lux) Microfinance Leaders Fund: USD 201 million

ASN-Novib Fund: USD 122 million

Dual Return Fund, Vision Microfinance Subfund: USD 116 million

Omidyar/Tufts Fund: USD 114 million

All of the above funds are European funds, except for the Omidyar Tufts Fund, which is based in the US.

Fixed-income funds reached 5.5 percent returns on average for 2008. There were three factors contributing to this positive performance:

- 1) An increase in credit risk premium for microfinance funds (generally 200 to 400 basis points) since summer 2008. Symbiotics reported that the average credit premium for the portfolio that it advises is roughly 700 basis points.
- 2) The majority of fixed-income funds invested in hard currency and thus were not impacted by currency risk.
- 3) Liquidity constraints have been the source of concern for microfinance loan portfolios, not credit risk.

CGAP predicts that the average net return for fixed-income funds (denominated in euros) will be below 3.5 percent for 2009. They do not foresee major redemptions from institutional investors because of their long time horizon and double bottom line perspective. Microfinance institutions are building loan loss provisions to anticipate the potential rise in credit risk, while asset managers are increasing cash levels to maintain liquidity and counter and manage any potential redemptions.

2008 Microfinance Technology Survey

CGAP (Consultative Group to Assist the Poor) and EU/ACP Microfinance Program, March 2009, 15 pages, available at: <http://www.cgap.org/gm/document-1.9.34552/2008%20Microfinance%20Technology%20Survey.pdf>

Many microfinance institutions (MFIs) use scarce resources to fund inadequate technology projects or simply do not invest in technology at all. This limits an MFI's ability to compete. Technology can improve efficiency, accuracy and increase outreach for many MFIs. Most importantly, current technology has the potential to reduce costs. Technology is cited as one of the greatest challenges faced by MFIs globally.

In regards to loan portfolio management and what types of systems are used to manage their portfolio, 18 percent reported the use of manual systems or spreadsheets, 53 percent use custom-built software and 29 percent use off-the-shelf products. A similar survey in 2004 found that far more (46 percent) were using spreadsheets or manual systems to manage their portfolio.

The survey provides a breakdown of portfolio management systems by region and type of institution. Sub-Saharan Africa, South Asia and East Asia and the Pacific have the greatest number of MFIs using manual systems and spreadsheets. This lack of industry standardization can increase costs for MFIs.

Spreadsheets and manual systems are most common among MFIs with less than 50,000 clients. While many functions remain largely manual such as insurance, social performance, cost accounting and human resources, automated systems are widely used to manage loans, deposits, remittances and client information.

57 percent of MFIs acknowledge that funding is key obstacle to improving their information systems.

Only 21 percent of respondents can determine payments in arrears in less than one day, while 48 percent can determine payments in arrears in one to three days.

Finally, infrastructure issues pose challenges for many MFIs. Reliable access to the internet and electricity is critical to increasing the use of technology. MFI managers are currently seeking ways to improve access to electricity in rural branches through the use of solar energy and generators.

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Microfinance Managers Consider Online Funding: Is it Finance, Marketing or Something Else Entirely?

By Deborah Burand, published by CGAP (Consultative Group to Assist the Poor), April 2009, 12 pages, available at: <http://www.cgap.org/gm/document-1.9.34243/FN54.pdf>

This report explores the growth of online lending and investment platforms - websites that lend money raised from internet users to microfinance institutions (MFIs) that, in turn, onlend to microentrepreneurs listed on the websites.

While Kiva is one of the best known platforms, with over 350,000 retail lenders, the number of websites focusing on microfinance is growing. Others noted include Babyloan, dhanaX, GlobeFunder India, MicroPlace, MyC4, myELEN, Rang De, United Prosperity, and 51Give.

Online lending and investing platforms may seem like a great option for MFIs seeking capital, as they often offer significant amounts of funding at highly subsidized interest rates. However, MFIs should ask many questions when considering such platforms:

Which online platform can be counted on to provide funding, and what additional support do they offer to the MFI? Socially motivated investors may be a more dependable source of funding than investors seeking a financial return who may shift from microfinance to more profitable areas.

What is the cost and currency of the online funding? Who will bear the risk? Few platforms have taken on this responsibility.

How will the online lending or investment platform help its MFI partners manage abrupt and perhaps unpredictable shifts in the funding patterns of its online platform? While online financing is not unlimited and may not remain stable, some see it as a funding source of last resort, with the sheer number and diversity of lenders and investors providing counter-cyclical stability.

How do traditional lenders view an MFI's choice to borrow from online lending platforms? They may have concerns about currency, duration and refinancing risks. They will consider how well online lending platforms might cooperate with other lenders when an MFI faces financial difficulties.

What are the reporting requirements? What are the operational and cost implications of this reporting? Many online lending platforms use profiles of microentrepreneurs to enhance the personal connection between lenders and borrowers, and MFIs sourcing this funding must hire staff or consultants to develop and update these profiles regularly.

What are the customer privacy and consumer protection concerns about posting online stories about microentrepreneurs? Increasingly online lending platforms are aligning themselves with MFIs to balance the information needs of the lending public with privacy needs of borrowers. So far, three online lending and investment platforms, Kiva, MicroPlace and MyC4 have endorsed the Client Protection Principles recently agreed by more than 40 of the world's largest microfinance investors.

What due diligence does the MFI need to conduct to satisfy concerns of regulatory authorities about money laundering and terrorist financing? MFIs are facing increasing requirements to perform due diligence on prospective funders, as well as their customers, under the rubric of combating money laundering and the financing of terrorism. As the precise source of funds on online lending platforms is not always clear, MFIs must rely on the platform to perform adequate due diligence.

The well-publicized successes of platforms like Kiva and MicroPlace are likely to generate a surge in new online lending platforms aimed at microfinance. MFIs should view online borrowing not just as a marketing opportunity, but as a serious funding decision. ☑