

## MICROCAPITAL BRIEFS | TOP STORIES

### Peru's Banco de Credito Offers \$96m for Financiera Edyficar

Reuters reports that Banco de Credito of Peru has agreed to acquire at least a 77 percent stake in Financiera Edyficar after offering USD 96 million for all of the shares of the microfinance institution. Edyficar has been controlled until now by nonprofit CARE, with International Finance Corporation and MicroVest also holding stakes. Edyficar holds a loan portfolio of USD 210 million and 200,000 clients. September 7. 2009

### Compartamos Triples Bond Issue to \$111m

Banco Compartamos of Mexico has issued the equivalent of USD 74 million in the local debt capital markets. This is in addition to the USD 37 million issued in July 2009. The bonds have a term of three years at an interest rate two percentage points above Mexico's 91-day interbank equilibrium rate. August 20. 2009

### BlueOrchard Takes \$10m Stake in Asmitha Microfin

The BlueOrchard Private Equity Fund has made an equity investment equivalent to USD 10.2 million in Asmitha Microfin Limited, a microfinance institution that serves women in India. This follows an October 2008 equity investment of USD 5.3 million by BlueOrchard in Asmitha, which reports a loan portfolio of USD 165 million, 1.16 million clients, return on assets of 5.33 percent, return on equity of 55.52 percent and a capital-asset ratio of 10 percent. Launched in 2007, BlueOrchard's Private Equity Fund raised USD 131 million in total assets during 2008. BlueOrchard has a total of USD 870 million in assets under management. September 8. 2009

### Citadel, Egyptian Gulf Bank Open MFI Tanmeyah

Tanmeyah Micro Enterprise Services has begun operations in Egypt, with 15 branches opened and loans worth USD 1.5 million disbursed to 1,669 clients during July 2009. Loans of USD 180 to USD 5,400 are made to borrowers that have completed at least one year in business. Tanmeyah is owned by Finance Unlimited (51 percent), Egyptian Gulf Bank (24.7 percent) and its managers (24.3 percent). Finance Unlimited is held by Citadel Capital, a private equity firm with holdings of USD 8.3 billion. September 14. 2009

### Having Failed to Do So on Wall Street, Journal Gets Tough on Microfinance

On page 7 we cover the controversy over several recent articles in *The Wall Street Journal*.

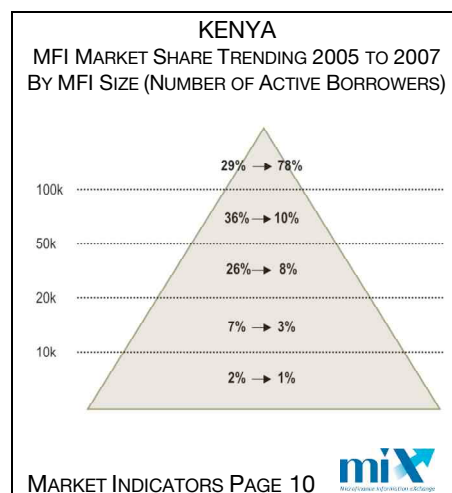
## CGAP MICROFINANCE DEALBOOK

CAPITAL MARKET TRANSACTIONS  
EVERY MONTH

DEALBOOK PAGE 8



INSIDE	Page
<b>MicroCapital Briefs</b>	<b>2</b>
Microfinance news	
<b>CGAP Microfinance Dealbook</b>	<b>8</b>
Capital market transactions	
<b>Meet the Boss</b>	<b>9</b>
Emmanuelle Javoy, Planet Rating	
<b>Market Indicators</b>	<b>10</b>
Courtesy of the MIX	
<b>Upcoming Events</b>	<b>11</b>
Industry conferences	
<b>Paper Wrap-ups</b>	<b>12</b>
Latest research and reports	
<b>Subscribe to the Monitor</b>	<b>14</b>



## MICROCAPITAL BRIEFS

### US Introduces Microfinance Growth Fund for Latin America

The US government has announced that it will launch a Microfinance Growth Fund in partnership with the Overseas Private Investment Corporation and two Inter-American Development Bank affiliates: the Multilateral Investment Fund and the Inter-American Investment Corporation. The fund will provide medium and long-term financing to microfinance institutions and microfinance investment vehicles that have been adversely affected by the financial downturn. The dollar amount to be committed by the US was not specified, but the fund is designed as a public-private partnership and additional investors are being sought to reach a goal of raising USD 250 million. September 14, 2009

### Cambodia: Microfinance Institutions Cut Rates

*The Phnom Penh Post* reports that microfinance institutions have been forced to cut their rates by up to 0.6 percent per month amid tight competition and public criticism that rates were too high. Prasac Microfinance Institution reportedly reduced monthly rates on smaller loans from 2.2 percent to 1.6 percent after borrower numbers dropped from 100,000 during 2008 to 80,000. CHC Limited General Manager King Kap Kalyan said microfinance institutions “really should not reduce interest rates at this time because our foreign lenders have increased their rates and non-performing loans have increased, but we don’t have a choice because of market competition.” CHC has reduced its average rates from 3 percent to 2.6 percent. September 14, 2009

### SNS Asset Managers Discuss the Measurement of Social Return

In a recent Ethical Corporation interview, Manuel Adamini and Marieke de Leede of SNS Asset Management argue that, “investors should abstain from suffocating MFIs [microfinance institutions] with advanced levels of disclosure and accountability according to (Western) transparency standards.... This would unduly distract MFIs from their core objective....” But that, “Once growth enters the arena, sustainability indicators at the organisation and client level become all the more important.... Sustainability indicators should accompany financial performance criteria on an equal footing, ensuring that MFIs remain as beautiful as they are while growing big.” September 14, 2009

### Michael Schlein to Take Helm at ACCION

ACCION International has named Michael Schlein as its new President and CEO. Mr Schlein will be leaving his post as President of International Franchise Management at Citigroup. September 11, 2009

### Microfinance Offers Options to Sex Workers in Niger

The United Nations reports that in order to reduce the transmission of HIV, the virus that causes AIDS, and to provide alternative income streams to sex workers in Niger, various NGOs have incorporated microfinance into their HIV education projects. September 11, 2009

### Unitus, Dell to Encourage Social Performance Management

The Michael and Susan Dell Foundation and nonprofit Unitus are launching a Social Performance Management Implementation Project (SPM IP) in India to measure the impact of microfinance institutions (MFIs) on their borrowers. Funded by a USD 756,000 grant from the Dell Foundation, the effort will help ten MFIs assess their goals, progress towards these goals and possible process improvements. Measurement tools will include the Grameen Foundation’s Progress out of Poverty Index and the CERISE Social Performance Indicator. After the measurement phase, MFIs will have the option to enter a second phase, integrating SPM IP into their daily operations. September 8, 2009

### IFC Takes \$1.2m Stake in Financiera El Comercio of Paraguay

The International Finance Corporation will purchase a projected 12 percent stake in Financiera El Comercio of Paraguay for USD 1.2 million. The investment is part of an effort to support microfinance institutions in the wake of the economic downturn. El Comercio reports 73,000 customers, 46 branches, an average loan per borrower equivalent to USD 949, a gross loan portfolio of USD 55 million, return on assets of 8.30 percent and return on equity of 51.56 percent. September 7, 2009

### Map Financial Sees Demand Rise to Offset Remittance Decline

Reuters recently covered a report from the Map Financial Group indicating that the significant jump in demand for its loans since July 2009 is related to the deterioration of the US economy, which has caused a 9 percent drop in remittances sent from family members in the US to relatives in the Caribbean islands. Headquartered in New York, Map offers payday loans in five Caribbean nations. September 4, 2009

### Bond Issue Raises \$10m for CARD of the Philippines

The Center for Agriculture and Rural Development (CARD) Bank of the Philippines has raised the equivalent of USD 10.4 million through the issuance of fixed-rate, five-year corporate notes. SB Capital Investment Corporation acted as issue manager and lead arranger. The transaction was supported by a USD 5 million guarantee from the Grameen Foundation’s Growth Guarantee Program, which previously issued CARD two USD 1 million guarantees on a total of USD 5.3 million in bank financing. Mary Jane A. Perreras, CARD’s director for fund resources management, called the recent issuance “a first step towards more sophisticated funding,” and floated the possibility of a future IPO. CARD reports a gross loan portfolio of USD 13 million and 117,000 active borrowers. September 3, 2009

### Mårten Leijon Takes Helm At MIX

Welcome to Mårten Leijon as the new Executive Director of the Microfinance Information Exchange (MIX). Among the projects he tells us to expect is: “Product line information for a better understanding of the types of loans that microfinance institutions are providing their clients.” We congratulate Mr Leijon and are looking forward to more great things from the MIX, an organization that continues to prove itself essential to the microfinance community. September 3, 2009

### Social Fund For Development, UN To Establish Network In Yemen

The Yemen Observer website reports that the Social Fund for Development and the United Nation Development Program are in the process of establishing a microfinance trade association in Yemen to promote best practices, good governance and accountability in the country’s microfinance sector. The network will also provide technical assistance, professional development and networking platforms. September 2, 2009

**MicroCapital Monitor** - © 2009 MicroCapital - ISSN 1935-505X

The MicroCapital Monitor is published monthly by MicroCapital

Editor David Satterthwaite

Director of Operations Bob Summers

Writers Radhika Chandrasekhar, Chinq Yee Chong, Diya Chopra,

Chris Maggio, Bharathi Ram and Zoran Stanislevic

Special thanks to Diego Guerra Tavera

For questions, comments or suggestions, please write to  
info@microcapital.org or call +1 617 648 0043, Boston, USA

*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!*

### Yunus Centre to Focus on New Models for Addressing Poverty

Television channel NewsAsia reports that Muhammad Yunus is establishing the Yunus Centre at the Asian Institute of Technology in Bangkok. Mr Yunus explained: "This will be a kind of laboratory for experimentations and new ideas; and some of them will be excellent ideas which will be applicable for the whole country - some of them for the whole world - you never know. When the seed is developed, you can plant it everywhere." September 1, 2009

### Advans Ghana, Advans Cameroun Increase Capital by \$4.8m

Advans Ghana and Advans Cameroun recently reported capital increases equivalent to USD 1.5 million and USD 3.3 million respectively. Both microfinance institutions were established by Advans SA, which is managed by Horus Development Finance, a French consulting firm. Co-investors in Advans SA include Agence Française de Développement, European Investment Bank, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), International Finance Corporation and KfW Entwicklungsbank. Advans Ghana, which began operations in October 2008, reports 1,500 active borrowers and an outstanding loan portfolio of USD 730,000. Advans Cameroun, which was founded in 2006 reports 4,000 active loan clients and outstanding loans of USD 2.9 million. August 31, 2009

### Microfinance Gateway Launches Spanish-Language Portal

The Microfinance Gateway has launched the Portal de Microfinanzas, its Spanish-language affiliate site, which was developed by CGAP (Consultative Group to Assist the Poor) and content management partner INCAE Business School of Costa Rica. The site features a library of 500 publications, articles on microfinance in Latin America, a calendar of events, job listings and country and organizational profiles. August 31, 2009

### US Banker Analyses the Impact of the Crisis on Microfinance

Regarding the effect of the financial downturn on microfinance, a recent article in *US Banker* magazine observes that while many microfinance institutions (MFIs) have nimbly refocused on customer needs and returned to local markets for funding, others have required assistance from quasi-public development banks and other development finance institutions. While liquidity problems are severe in Eastern Europe, cross-border funding issues are paramount in bigger markets such as India and Bangladesh. Laurie Spengler, President of ShoreBank International, is quoted as stating that MFI borrower defaults are increasing "at roughly the same rate that we see defaults rising at the consumer level in OECD countries," but that "most MFIs tend to continue working with borrowers who are in default to reschedule or restructure payments, resulting in fewer write-offs than those experienced by traditional banks." CGAP Director Elizabeth Littlefield calls the slower growth "a welcome change," to the over-exuberant growth of the past few years. August 31, 2009

### Repayment Problems, Multiple Lending Dog Indian State

In a recent CGAP (Consultative Group to Assist the Poor) blog article entitled "Multiple borrowing or multiple lending - who is to blame for debt fatigue?", N Srinivasan explores the microloan repayment problem that has affected the Indian state of Karnataka. Mr Srinivasan states that, "Taking advantage of the label of microfinance, some predatory lenders have started 'MFIs' [microfinance institutions] with highly undesirable lending practices, bringing the entire sector into potential disrepute." On the other hand, there is enough blame to go around: informal estimates indicate that 25 percent of borrowers in urban and peri-urban areas have borrowed from more than five MFIs. August 31, 2009

New Event

## MICROFINANCE FOR INSTITUTIONAL INVESTORS

ACCION is proud to be the Official Partner of:

*Microfinance for Institutional Investors, in Washington D.C., September 21st-23rd.*

For more information and to register, visit [www.accion.org/events](http://www.accion.org/events).



ACCION International is a private, nonprofit organization with the mission of giving people the financial tools they need – microenterprise loans, business training and other financial services – to work their way out of poverty. A world pioneer in microfinance, ACCION was founded in 1961 and issued its first microloan in 1973 in Brazil. ACCION's partner microfinance institutions today are providing loans as low as \$100 to poor men and women entrepreneurs in 23 countries in Latin America, Asia, Africa and the United States. In the last decade alone, ACCION partners have disbursed more than 28.5 million loans totaling \$23.4 billion; 97 percent of the loans have been repaid.

**ACCION**

### On the Importance Of Taking Deposits

*Time* magazine recently published an article which - in the footsteps of a Nicholas Kristof *New York Times* blog entitled "Putting the Microsavings in Microfinance" - argues that savings is more important to poor people than borrowing. August 31. 2009

### Pakistan Treats Over-indebtedness by Raising Microloan Caps

The State Bank of Pakistan has again amended the regulations applicable to microbanks. One change increases the maximum housing loan to the equivalent of USD 6,000 for borrowers with annual household incomes of up to USD 7,200. For general loans, the limit has been raised to USD 1,800 for a single borrower with an annual household income USD 3,600. The stated purpose of the new caps is to encourage microfinance clients to "graduate" to bigger loans from smaller ones. At the same time, the amended regulations dictate that microbanks better monitor borrowers' exposure to minimize over-indebtedness. For example, microbanks will be required to obtain a written declaration from each borrower regarding credit facilities that have been obtained from other institutions. To make a loan of more than USD 600, microbanks will be required to obtain a credit report on the borrower. August 31. 2009

### Indonesia Looking to Cut Microfinance Interest Rates

*The Jakarta Post* recently reported that the Indonesian government and Bank Indonesia - the central bank of Indonesia - will work together to bring down KUR microcredit interest rates to around 13 percent from current levels of 16 percent or more. The government's KUR program has a 2010 budget allocation of USD 2 billion. August 18 and August 26. 2009

### Banks in Malaysia Foresee Continued Profits in Microfinance

The Star Online website reports that Malaysian banks are projecting a bright outlook for microcredit after the segment registered a strong performance in the first half of this year. Public Bank Bhd managing director Tan Sri Tay Ah Lek reported that microloan applications were up 34 percent in the first half of this year compared to the same period in 2008. Mr Tay said that, "the level of microfinance non-performing loans (NPLs) continues to remain low and stable...." Alliance Bank Malaysia Bhd CEO Datuk Bridget Lai said, "...we expect [our micro-financing portfolio] to grow this year based on an uptrend on the number of approved loans since April.... There is still a huge demand for this type of product in Malaysia." August 26. 2009

### India's Public Sector Banks on Alert for Distressed Accounts

Public Indian banks are expecting a rise in overdue microfinance accounts this year, according to Indian daily *The Hindu Business Line*. A significant portion of the distressed assets are refinanced loans extended to self-help groups and microfinance institutions, which in turn had extended credit primarily to rural areas. Both drought and the use of loans for lifestyle - rather than productive - expenditures are cited as contributing to the late payments. Some banks are looking to restructure or reschedule loans, while others like Syndicate Bank are still in the process of "evaluating" the situation. August 25. 2009

### Nokia to Deliver Crop Data to Indian Farmers by Mobile Phone

Nokia Corp, the Finnish mobile phone supplier, has announced the launch of Nokia Life Tools in partnership with SKS Microfinance. Available in 12 states across India, the service offers a wide range of data: from crop prices and farming techniques to English lessons, sports updates and jokes. Payments to purchase phones start at the equivalent of USD 2. August 22 and August 24. 2009

Welcome  
MFI  
Leaders

This newspaper will be  
in the hands of the leaders  
of over 1,000 additional  
microfinance institutions  
starting this fall.





leading social investments

responsAbility

**responsAbility – your professional financing partner****Is your MFI looking for:**

- Fast and straightforward access to financing?
- A powerful and longterm partner at every business stage?
- Adequate pricing?

**responsAbility offers you:**

- A full range of tailor-made financing solutions from debt to equity
- A global network of financial service providers
- Prompt execution and transparent rates

responsAbility is one of the world's leading social investment companies, specialized in microfinance, SME financing, fair trade and media development. With our investment fund products we successfully bridge the gap between the financial markets, the goals of development cooperation and the needs of the microfinance industry.

**Assets under management**

- Over USD 800 million
- Invested in 250 MFIs
- In 60 countries

**responsAbility**

Social Investments AG, Josefstrasse 59, CH-8005 Zurich, Switzerland

Phone +41 (0)44 250 99 30, Fax +41 (0)44 250 99 31, [info@responsAbility.com](mailto:info@responsAbility.com), [www.responsAbility.com](http://www.responsAbility.com)**SKS Microfinance to Set Up Credit Bureau for Indian MFIs**

According to the Financial Chronicle website, SKS Microfinance CEO Suresh Gurumani has stated, "There is no credit bureau that supports microfinance lenders. So we are in the process of getting one. We are talking to the Credit Information Bureau (India) and a couple of other people." Likely obstacles include a lack of computerization at some microfinance institutions and that, according to Mr Gurumani, "It's next to impossible to assign any kind of unique identification for people in rural areas." August 23, 2009

**Pakistan Microfinance Industry Hopes to Meet 50% Growth Target**

According to the Daily Times website, Pakistan Microfinance Network CEO Syed Mohsin Ahmed has stated that the Pakistani microfinance industry is determined to meet the 50 percent growth target given to it by the government for the current fiscal year. Mr Ahmed also said that (1) microfinance institutions should build capacity to attract commercial funds on more favorable terms and (2) the industry should shift focus from pricing to efficiency and to ensuring that profit margins fall within a reasonable band. In order to operate at an optimum level, he estimates that the microfinance sector will need to have 1.7 million employees and 190,000 retail branches and to reach an aggregate portfolio equivalent to USD 30 billion. August 22, 2009

**Japanese Firm Accepting Retail Investments in Microfinance**

A Japanese music production and fund management company is reportedly developing a microfinance investment fund worth the equivalent of USD 540,000 to support farmers and businesses in Cambodia. Music Securities Inc will accept money for the fund from individual investors in increments of USD 320 mainly via the Internet. August 22, 2009

**Reserve Bank of India Panel Sees Big Role for Branchless Model**

Indian daily *The Financial Express* reports that a Reserve Bank of India (RBI) working group favors major expansion of the "business correspondent" model to increase financial inclusion. Such a model involves delegating the servicing of financial transactions to non-bank outlets, such as food stores or even individuals. The model is seen as a key method to achieving a goal of having a banking outlet - at least once a week - in every village with a population of over 2,000 by March 2011. August 21, 2009

**Yunus Argues Crisis Is Opportunity to Reform Financial System**

Muhammad Yunus recently spoke at the International Finance Corporation, where he argued that the financial downturn is actually an amalgam of many crises: finance, food, energy, environmental and social. This amalgam offers - Mr Yunus says - an opportunity to change the modern financial system by (1) transforming finance to include both rich and poor and (2) changing the concept of business in order to achieve a higher social impact in terms of job creation, public health and poverty reduction. August 20, 2009

**MFTransparency Launches in Cambodia**

MFTransparency, which aggregates interest rate data from microfinance institutions (MFIs), has officially launched in Cambodia. With an eye towards gaining traction in countries that would be friendly to the effort, the group also recently debuted in Peru and Bosnia. The next rollout is scheduled for Bangladesh, where the government is reportedly drafting a law to require MFIs to submit data to the initiative. August 20, 2009

### **Nigeria: \$315m Microfinance Fund Exists “Only on Paper”**

In February 2008, Nigerian President Umaru Yar'Adua announced the launch of a microcredit development fund worth the equivalent of USD 315 million, but Ifeoma Ona, Managing Director of Elim Microfinance Bank Limited says: “The fund is only on paper; no microfinance bank has access to the fund.” August 20. 2009

### **The Philippines, GTZ to Sell Life Insurance in Rural Areas**

The government of the Philippines and the German Technical Cooperation Agency (GTZ) have agreed to implement the Microinsurance Innovation Program for Social Security, which aims to provide life insurance to 20 percent of poor people in rural areas over three years. August 20. 2009

### **Balkan Microlenders Turn to Co-signers as Defaults Rise**

Reuters news service recently reported that guarantors - or co-signers - in the Balkan states are increasingly being pursued by lenders to pay up on overdue loans for which they have vouched. In the aftermath of the war from 1992 to 1995, it was common for borrowers to secure guarantees from family and friends in order to get loans. People reportedly guaranteed the loans, “unaware that their backing was no longer a mere formality as during socialist times.” The problem of over-indebtedness has grown as microborrowers have taken on loans from multiple microfinance institutions in addition to signing on as guarantors for others. August 19. 2009

### **Reserve Bank of India Decries Continued Lack of Access to Credit**

Reserve Bank of India Deputy Governor Dr K C Chakrabarty, speaking at a recent conference, argued that extending banking services to everyone in the country will be the key driver to economic development in India. August 18. 2009

### **Pakistan to Tailor Microcredit Scheme for People with Disabilities**

The Pakistan Ministry of Social Welfare and Special Education is working on a microcredit program for disabled people, according to Pakistani news daily *The Nation*. The Ministry is working with Kushi Bank and other banks to lay the groundwork for “providing loans to disabled people with a minimum interest.” The effort is part of a larger movement to make Pakistan “a disabled friendly state,” with transportation discounts and other benefits for people with disabilities. August 18. 2009

### **Jamaican Credit Union Developing Own Brand of Microfinance**

St. Thomas Co-operative Credit Union of Jamaica is reportedly conducting a series of roundtable consultations to gather ideas from local people to develop a sustainable microfinance lending model that is “indigenous” to Jamaica, where microfinance has never found significant footing. In an effort to reverse economic damage from the decline of local sugar and banana operations, ideas under consideration include group lending, alternative means of collateral, business mentorship and numeracy and literacy training. August 17. 2009

### **CreditSMS Developing Mobile Banking Platform**

CreditSMS is developing software to track mobile money transactions in real time, which would allow microfinance institutions, cooperatives or kinship networks to run their own “branchless banks.” The platform would also allow for more complex services, such as providing savings services by holding many people’s m-money in a central SIM card. To deposit or withdraw money, a saver would text a key code and dollar amount to a processing hub, which would check the request against the person’s profile and deposit or release the appropriate funds. The system will also be designed to handle the distribution and repayment of microloans. August 17. 2009

### **Minlam Asset Management Water Cooler**

Minlam Asset Management has announced the appointment of Rory Stear as Non-executive Chairman and Lloyd Stevens as Managing Director. August 17. 2009

### **Ratios May Not Accurately Reflect MFI Strengths**

In a recent article posted on the CGAP Microfinance Blog, David MacDougall argues that - instead of only focusing on the numbers - analysts should also focus on understanding the activities, context and management of microfinance institutions. For example, the risk characteristics of consumer lending are very different from those of making small loans to microentrepreneurs. Another key consideration is whether an institution is mission-driven or profit-driven. For example, Mr MacDougall argues that when ASA of Bangladesh saw operational sustainability drop from 240 percent in 2006 to 185 percent in 2007, it was not due to weakness, but because of a mission-based choice to lower interest rates. August 14. 2009

### **Jamii Bora Uses Microfinance to Build Town in Kenya**

Kenya’s Jamii Bora Trust is creating an “ecologically friendly” town for 2,500 families near Nairobi in partnership with nonprofit Unitus. Members of Jamii Bora, a microfinance institution, produce the bricks, tiles and other materials needed for construction in the town, which has its own water supply, power supply and primary school. Three hundred families, most of whom are from nearby slums, have so far purchased homes using loans with rates of up to 10 percent interest and up to 15 year terms. The monthly mortgage is USD 36, which is comparable to rents in area slums. August 13. 2009

### **Basix Chairman Advocates Islamic Finance**

According to the Two Circles website, the chairman of the Indian microfinance institution Basix, Vijay Mahajan, has advocated for the use of Sharia-compliant concepts, such as interest-free “micro-equity finance.” He did caution that the concept - whereby the investor and the microentrepreneur share both losses and profits - might work best in small communities where people know and trust each other. Established in 1996, Basix reports total assets of USD 111 million. August 12. 2009

### **Rwanda: National Bank Liquidates Urunana Microfinance**

According to the Business Times website, the National Bank of Rwanda is in the process of liquidating four microfinance institutions that have run bankrupt. Of these only Urunana Microfinance has been named. The other three may yet be saved. August 11. 2009

### **National Bank of Vanuatu Gets \$212k to Expand Rural Services**

The Pacific Financial Inclusion Program is granting USD 212,000 to the National Bank of Vanuatu to extend its e-banking network to an additional five rural branches, which will serve 13,000 more rural producers and micro-entrepreneurs. August 10. 2009



## MicroCapital Monitor

Want your news covered?  
Send it to us at  
[info@microcapital.org](mailto:info@microcapital.org)

## SPECIAL REPORT: *The Wall Street Journal* Causes Stir With Warnings About Microfinance

On August 13, *The Wall Street Journal* published several articles on the pitfalls of microfinance. These articles caused a flurry of direct and indirect responses in the *Journal* and worldwide, both in support of the warnings and in defense of microfinance as an investment class and anti-poverty tool.

### **"For Global Investors, Microfinance Funds Pay Off..."**

**So Far** written by Mr Rob Copeland suggests that whilst investments in microfinance funds have been lucrative in the past year, investors are concerned about future prospects in the microfinance sector as a result of the weakened global economy. The article cites research by CGAP (Consultative Group to Assist the Poor), indicating that the USD 30 billion microfinance industry has been expanding its lending at a rate of 40 to 50 percent over the past five years. Some have voiced concerns that "too much money is chasing too few loans." Another challenge is that microfinance is a largely unregulated sector. For example, most US-based funds aren't registered investment companies, and thus aren't subject to supervision by the Securities and Exchange Commission.

### **Reuters Blogger Argues Against Investing in Microfinance**

In an August 13 Reuters blog, Felix Salmon argues that, "I'm a fan of genuinely local, bottom-up microfinance. But what the WSJ is talking about - which is where the real growth is - is top-down microfinance, driven by external funds from the developed world.... It's undoubtedly true that microfinance could be a lot bigger than it is now. But the way to get there from here isn't to throw for-profit private-equity dollars at it. The real constraint is finding and training good local women who can underwrite well and who know their customers on a personal level.... If western do-gooders want to support microfinance lenders, they should simply donate their money to grassroots organizations in the developing world. If they want to make a profit, they should stick to more conventional investments." August 13, 2009

### **Reuters Blog On Microfinance Investing Generates Controversy**

In response to the Felix Salmon blog, commentators responded that institutional investors were aware of the problem of over-indebtedness and are in fact signatories to the Campaign for Consumer Protection initiated by the Center for Financial Inclusion. Others responded that social investors should "trade in financial returns for social returns" and should not just participate in the sector for the "growth story" alone. The blog also generated much comment on foreign currency hedging. One commentator noted that equity can be more expensive than loans due to the significant investor dividends that are distributed in hard currency (sometimes against a devaluing local currency).

### **The Economist Continues Debate on "Microfinance Bubble"**

On August 25, *The Economist* magazine addressed *The Wall Street Journal* article, referring to bullish comments by Alvaro Rodriguez, Chairman of Compartamos Banco, a public company, and Vikram Akula, founder of SKS Microfinance, which will soon go public. John Murdoch of New York University is quoted as stating that the problem of a "microcredit bubble" should not be dismissed, but that "localised bubbles" are much more likely than a worldwide microfinance meltdown.

### **High Valuations Turn Investors Away from Indian Microfinance**

A recent article in the *Hindu Business Line* argues that the microfinance sector "seems to have lost its charm," with high valuations resulting in investor trepidation, particularly with regard to startup microfinance institutions. However Anurag Agrawal, Senior Vice-President of microfinance research firm Intellectap, was quoted as saying that the secondary market for microfinance investments will start to pick up as existing investors start looking for exits.

### **"Group Borrowing Leads to Pressure"** written by Ketaki Gokhale

reviews arguments against group lending and cites the experience of Hasina Bano, a young mother of three who earns USD 8 weekly in a silk factory. Ms Bano has to make a weekly payment of USD 7.20 to her microlender and has struggled with repayments for years. She is under significant pressure from her group mates, who cannot secure new loans until she has repaid her portion. Now she feels obliged to take out a new loan with a different group of women to pay off her existing debts. She has reportedly sold off many valuable possessions - a mixer, a television, some brass vessels, a water boiler, the family's mobile phone and a government ration card which gave her access to food.

### **Microfinance Sector Responds to *The Wall Street Journal***

Grameen Foundation, IFMR Trust, Microplace, SKS Microfinance, Ujjivan and Unitus all posted open letters to *The Wall Street Journal* condemning the group borrowing article for: the level of understanding of the reporters regarding the ground realities of microfinance; the generalization based on anecdotal information from one neighborhood; and the lack of acknowledgement that repayment rates exceed 98 percent at leading Indian microfinance institutions.

### **On the Need for Market Literacy Not Just Microfinance**

On September 2, *The Wall Street Journal* published an article by Madhu Viswanathan and Srinivas Sridharan on their "marketplace literacy educational program," which is designed to make poor people more aware of their options and rights in relation to financial dealings and can help avoid "ill-advised enterprises [that] can cause a slide into deeper debt." The program uses methodology that takes into consideration both the low literacy and excellent social skills that they say are common in rural areas. Using pictorial - rather than text-based - materials, participants are led through simulated shopping experiences that mimic pitfalls in real-life transactions. The program also trains participants to more accurately gauge value by considering "multiple dimensions of what they give up (money, time, and effort) in exchange for acquiring a product." The authors state that, "the most impactful aspect of marketplace literacy is that it treats consumer and entrepreneurial literacy as two sides of the same coin."

### **IFMR Trust Staff "Debunk Myths" in *The Wall Street Journal***

In a September 4 article in *The Wall Street Journal*, Suyash Rai and Sona Varma of IFMR Trust address what they perceive to be "a number of popularly held misconceptions about role of finance in the lives of the poor," including that, "the poor are not creditworthy...finance falls lower in the 'hierarchy' of needs for the poor...and...the poor are not sophisticated in using financial services, so access to finance may end up damaging their livelihoods." The authors note that repayment rates are regularly above 95 percent and that poor people often go to great lengths to build a "complex mesh of informal financial mechanisms" to meet their needs because well-designed formal services are do not exist in their area. IFMR Trust is a private trust with the mission of ensuring complete access to financial services for individuals and enterprises in India.



## TOP AUGUST 2009 MICROFINANCE TRANSACTIONS

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

Investor	Investee	Region	Amount (USD)	Type
Public Offering	Compartamos	LAC	~75,200,000	Equity
European Bank for Reconstruction and Development	Europejski Fundusz Leasingowy	ECA	70,000,000**	Debt
Rwanda Development Bank	To Be Determined	SSA	~21,500,000	Debt
Security Bank Corporation, et al	CARD Bank	EAP	~10,300,000	Debt
Microfinance Enhancement Facility (responsAbility)	ProCredit Nicaragua	LAC	10,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	ProCredit Bank Serbia	ECA	9,975,000	Debt
European Bank for Reconstruction and Development	Agroinvestbank	ECA	~8,400,000**	Equity
Inter-American Development Bank	FONAVIPO (Fondo Nacional de Vivienda Popular)	LAC	7,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	WWB - Popayan	LAC	~5,062,035	Debt
International Finance Corporation	FM Bank	ECA	5,000,000	Equity
FMO (The Netherlands Development Finance Company)	Belarusian Bank for Small Business	ECA	5,000,000	Debt
FMO (The Netherlands Development Finance Company)	Grupo Supervielle	LAC	4,000,000	Debt
Advans SA SICAR	Advans Cameroun	SSA	~3,270,000	Equity
Vision Microfinance Fund (Absolute Portfolio Management)	Azerdemiryolbank	ECA	3,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	ProCredit Ecuador	LAC	3,000,000	Debt
ACCION Investments in Microfinance, SPC	Mibanco	LAC	3,000,000	Debt
responsAbility Global Microfinance Fund	FINCA Azerbaijan	ECA	2,500,000	Debt
Oikocredit	Nyesigiso	SSA	~2,185,204	Debt
Oikocredit	Saadhana	SA	~2,044,504	Debt
Oikocredit	Sahara	SA	~2,044,504	Debt
Oikocredit	Creceer	LAC	2,000,000	Debt
Oikocredit	Diaconia	LAC	~2,000,000	Debt
MicroVentures SpA	Edpyme Raiz	LAC	~2,000,000	Debt
Hivos-Triodos Fund	ODEF	LAC	~2,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	Kazmicrofinance	ECA	2,000,000	Debt
responsAbility Global Microfinance Fund	Edpyme Alternativa	LAC	~1,519,440	Debt
responsAbility Global Microfinance Fund	ACBA	ECA	1,500,000	Debt
Locfund LP	Unspecified	LAC	~1,500,000	Debt
Bistum (responsAbility)	FINCA Azerbaijan	ECA	1,500,000	Debt
Bistum (responsAbility)	ACBA	ECA	1,500,000	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

**Amounts:** Deals denominated in local currency are indicated by a tilde (~). A double asterisk (\*\*) indicates that the transaction included funding of non-microfinance services and the amount shown is an estimate of the allocation specifically to microfinance.





## MEET THE BOSS

*Emmanuelle Javoy is the Managing Director of Planet Rating.*

### Emmanuelle Javoy

*MC: Please briefly describe your organization.*

EJ: Planet Rating is a microfinance rating agency, meaning that we provide ratings or evaluations of the sustainability of microfinance institutions (MFIs) - both the financial and social sustainability of the institution.

*MC: What is the background of Planet Rating?*

EJ: We have been performing ratings for ten years. We were created by PlaNet Finance, the NGO, and were spun off in 2005. We now have four shareholders. We are twenty staff spread over regional offices: Lima covering South and Central America, Dakar covering West and Central Africa, Nairobi covering East and Southern Africa, Beirut covering the Middle East and North Africa and Manila covering Asia. We completed roughly 100 rating missions per year during 2008 and 2009.

*MC: What is your background?*

EJ: In the first half of my career, before coming to microfinance, I worked in internet and information technology and consulting. My introduction and interest in microfinance developed through my volunteer work. Six years ago, I began at Planet Rating working as an analyst, and then I became a quality manager. I have been Managing Director for one and a half years.

*MC: Who are your customers?*

EJ: We currently have two types of customers. Until 2007, our only type of customer was microfinance institutions. The market had been designed this way; ratings were paid for by microfinance institutions. This had advantages and disadvantages. An advantage is that an MFI can commission one rating report for many different partners. A disadvantage is the potential conflict of interest. Since 2007, we have had investors, donors and technical partners as customers, to which we provide our reports through a subscription service.

*MC: What are keys to providing quality ratings?*

EJ: The keys to quality are an up-to-date methodology, well-trained and qualified staff, time spent onsite at the MFI and rating committees run by members of a senior management team.

*MC: How has your methodology evolved over time?*

EJ: We regularly update our methodology in accordance with rising risks and other changes in the sector. Microfinance has changed so much. Over ten years of growing with MFIs, we have learned which factors best predict outcomes.

*MC: What products do you offer?*

EJ: First is the financial rating of MFIs. Our methodology for these ratings is called GIRAFE. It evaluates the level of risk of a microfinance institution. In other words, we provide an assessment of the long-term sustainability based on firm performance, management and exposure to risks in the marketplace. This rating is specialized for microfinance and is similar to a "credit risk rating," as it is called in mainstream rating terminology. These ratings are key to investors in their due-diligence process.

Second, we provide social ratings, which are evaluations of the capacity of an MFI to actually put its stated social mission into practice.

Third, we provide interactive assessments, which are ratings designed for less mature MFIs. These assessments are for MFIs interested in understanding the evaluation framework and their own strengths and weaknesses. During these ratings, we spend more time onsite at the MFI, making sure to convey conclusions to the management team. They share in the process with us and - in the end - own the conclusions rather than the actual report. These assessments are designed to be used by donors and technical partners who want to work with an MFI to help it improve and grow.

Fourth, we offer a growing subscription service that delivers our reports to the investor and donor community.

*MC: How has the current economic instability affected the ratings market?*

EJ: The current situation has shed a bright light on the activities of mainstream rating agencies. This environment encourages us to examine how we work to be sure not to fall into the same traps. Microfinance rating agencies have a very strong focus on the evaluation of the systems and people that affect the performance of MFIs. We spend quite some time in the field, where the microfinance operations are conducted, and we go far beyond just looking at numbers. The ratings of future CDOs or CLOs is the area where things will have to be revised. It will be important that the rating of these products, where mainstream agencies are likely to be involved, is based on a thorough assessment of the underlying assets, meaning the MFIs themselves.

*...we go far beyond just looking at numbers.*

*MC: What do you see in the future for microfinance?*

EJ: My perspective on the market is that this difficult period we are going through will most likely strengthen microfinance. Being less naïve has huge value. We have seen many MFIs becoming stronger once they have had to overcome some challenges. Often, management has improved, putting in place systems and people that are better equipped to handle all situations. In this way, I believe that many institutions have become well-prepared for the current crisis.

One reason that I am committed to microfinance is that when I have had doubts about the direction of the market, the industry has been able to react and adapt. This is an industry that is able to recognize its weaknesses and work on the areas that need attention. Many topics have been worked on and are being improved, such as social performance, social responsibility, over-indebtedness, transparency of interest rates and quality of client service. So much has been taken care of and much work has been done. This is a huge strength of the sector - being open to changes and being open to criticism - and then sharing experiences worldwide. 🗨️

*This feature is sponsored by:*



**PlaNet Finance**  
Your money can change the world

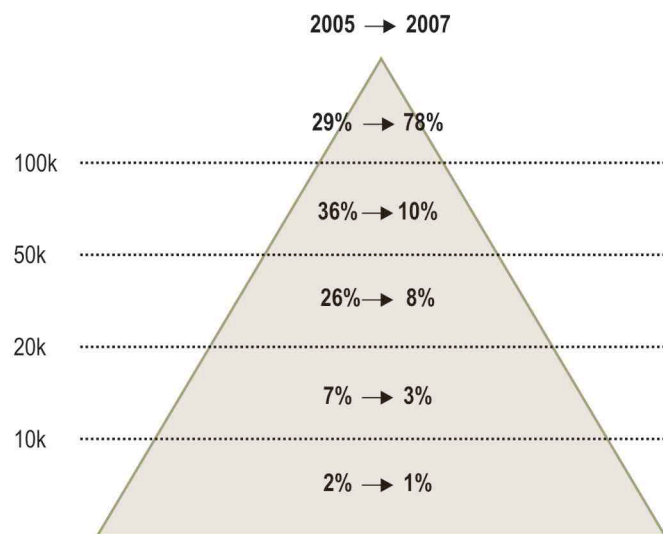
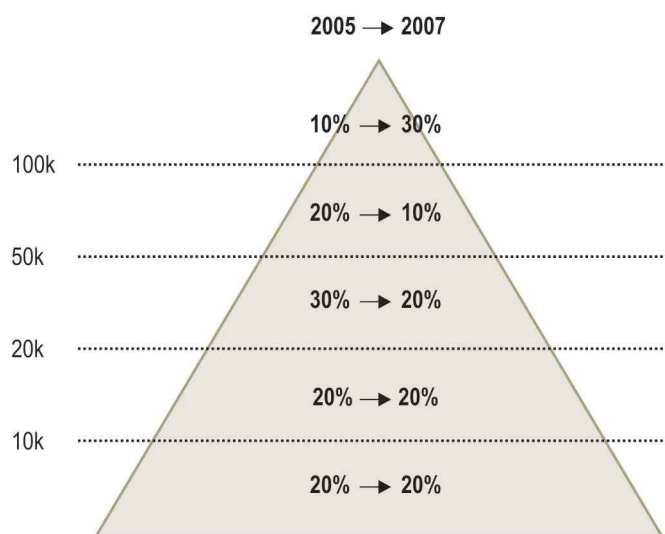
## MICROCAPITAL MARKET INDICATORS | KENYA

10 MFIs REPORTING

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

MFI NAME	AVERAGE ANNUAL USD INCREASE	AVERAGE ANNUAL % INCREASE	2005	2007
Equity Bank	137,889,652	112	78,875,672	354,654,976
K-Rep Bank	24,390,722	56	33,714,348	82,495,792
Kenya Women Finance Trust	20,461,600	74	20,143,244	61,066,444
Faulu - Kenya	8,196,574	56	11,462,400	27,855,548
Kenya Agency for the Development of Enterprise and Technology	2,160,322	70	2,271,283	6,591,927
Small and Micro Enterprise Project	1,785,839	28	5,716,490	9,288,168
Business Initiatives and Management Assistance Services	598,981	35	1,450,963	2,648,924
Microenterprise Development Services Ltd (formerly Sunlink)	446,586	34	1,112,244	2,005,415
Family Bank Limited	358,322	84	302,146	1,018,790
Yehu Microfinance Trust	52,332	16	311,354	416,017

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



## UPCOMING EVENTS

### Microfinance for Institutional Investors

September 21 - September 23, 2009, Vienna, Virginia, USA

This event will cover innovative microfinance investments, emerging opportunities and exit strategies. Pricing for institutional investors is USD 1,099, with add-on workshops available. More information is available at <http://www.hansonwade.com/events/microfinance-for-institutional-investors/>, [info@hansonwade.com](mailto:info@hansonwade.com) or +1 212 537 5898.

### Clinton Global Initiative - Fifth Annual Meeting

September 22 - September 25, 2009, New York, USA

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

### Global Youth Enterprise Conference

September 29 - September 30, 2009, Washington, DC, USA

This conference is structured around project design and implementation; policy and advocacy; evaluation; partnerships; and crosscutting. The registration fee is USD 575. Details are available from Whitney Harrelson at +1 202 783 4090, [whitney@makingcents.com](mailto:whitney@makingcents.com) or <http://youthenterpriseconference.org/>.

### XII FOROMIC 2009: Inter-American Forum on Microenterprise

September 30 - October 2, 2009, Arequipa, Peru

This event will cover best practices for promoting microenterprise. More details are available via <http://www.iadb.org/mif/foromic>, [foromic@iadb.org](mailto:foromic@iadb.org) or +1 202 623 1000, but the event is sold out.

### Second Annual Microfinance Investment Summit

October 6 - October 7, 2009, London, UK

This event aims to unite institutional and private investors, the donor community, microfinance institutions and industry experts. The cost to attend is the equivalent of USD 2,100 dollars plus VAT, with various discounts available. Add-on workshops are available for USD 600. More details are available via [enquiries@c5-online.com](mailto:enquiries@c5-online.com), +44 (0) 20 7878 6886 or <http://www.c5-online.com/microfinance.htm>.

### AMT Microfinance Investor's Fair 2009

October 21 - October 22, 2009, Nairobi, Kenya

African Microfinance Transparency (AMT) is offering this event to investors and African microfinance institutions (MFIs) that have undergone a rating or are about to do so. The registration fee is EUR 100 for two representatives per MFI. Details are available from Emma-Jayne Paul via +352 45 68 68 31, [info@amt-forum.org](mailto:info@amt-forum.org) or <http://www.amt-forum.org>.

### 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](mailto:remittances@ifad.org) or +39 0654591.

### The Contribution of Microfinance to Financial Inclusion

October 28 - October 29, 2009, Harbin, China

This conference, sponsored by PlaNet Finance, will look at how banks are downscaling to meet the needs of micro-, small and medium-sized businesses. The registration fee is USD 335. For details, contact Alison Schmidt at [aschmidt.mfchina@gmail.com](mailto:aschmidt.mfchina@gmail.com) or <http://bankingmicrofinancechina.net/>. No telephone number is offered.

### Mobile Money Transfer Conference and Expo

October 26 - October 27, 2009, Dubai, United Arab Emirates

This event will cover how to share brands, customers, data and revenue for the benefit of all parties. The registration fee is equivalent to USD 2140, with add-on workshops and discounts available. Details are available via Steven Clarke at +44 (0) 20 7067 1831, [mmt@clarionevents.com](mailto:mmt@clarionevents.com) or <http://www.mobile-money-transfer.com/global-summit/>.

### Microfinance India Summit 2009

October 26 - October 28, 2009, New Delhi, India

This conference will address the trade-offs and points of convergence that arise as the microfinance sector balances financial and social performance. The standard price is USD 620 for attendees from international organizations, with discounts available for local attendees and students. Details are available via +91 11 2651 0915, [microfinanceindia@accessdev.org](mailto:microfinanceindia@accessdev.org) or <http://microfinanceindia.org/>.

### Fifth International Microinsurance Conference

November 3 - November 5, 2009, Dakar, Senegal

This conference will focus on health microinsurance, market analysis and linking microfinance with microinsurance. Fees range up to EUR 690, with discounts available for certain groups. For additional information, contact Dirk Reinhard via +49 89 3891 8888, [info@munichre-foundation.org](mailto:info@munichre-foundation.org) or <http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2009Microinsurance/default.htm>.

### Triple Bottom Line Investing Conference - Europe 2009

November 12 - November 13, 2009, Amsterdam, Netherlands

This event will cover sustainable development and ESG (environmental, social and governance) investing in Europe and Asia. Attendance fees are EUR 745 for one day or EUR 1,245 for two days. More information is available via Frank Stevens at [europe2009@tbli.org](mailto:europe2009@tbli.org), +31 (0) 20 428 6752 or <http://tbliconference.com/>.

### Eighth Africa Microfinance Network Annual Conference

November 16 - November 20, 2009, Dakar, Senegal

This event will focus on strategies to boost economic growth in Africa by building strong and inclusive rural finance systems. The registration fee is USD 300. More details are available from Davy Serge Azakpame at [davy.serge@afminetwork.org](mailto:davy.serge@afminetwork.org), +229 21 30 74 41 or [http://www.afminetwork.org/events\\_8th-annual-conference-and-general-assembly\\_3.html](http://www.afminetwork.org/events_8th-annual-conference-and-general-assembly_3.html).

### European Microfinance Week

November 24 - November 26, 2009, Luxembourg

This meeting of the European Microfinance Platform will examine how the sector has reacted to the global financial crisis. Registration costs USD 430, with student discounts available. More details are available via <http://www.e-mfp.eu/microfinance-week>, [contact@e-mfp.eu](mailto:contact@e-mfp.eu) or +352 26 27 13 55.

### Risk Management Excellence in Microfinance:

#### Connecting Luxembourg to Leading MFIs

November 27 - December 1, 2009, Luxembourg

Agence de Transfert de Technologie Financière, Appui au Développement Autonome and Professionals of Risk Management are hosting the second edition of this workshop, which is targeted at executives of the top 100 microfinance institutions that have already created or are about to create internal risk management departments. Pricing details are expected soon at <http://www.attf.lu/> or may be requested via [microfinance@attf.lu](mailto:microfinance@attf.lu) or +352 26 86 73. 📧

## PAPER WRAP-UPS

### Group Versus Individual Liability: Long Term Evidence from Philippine Microcredit Lending

*By Xavier Giné and Dean Karlan, published by the Financial Access Initiative and Innovations for Poverty Action, May 2009, 37 pages, available at: [http://financialaccess.org/sites/default/files/GroupversusIndividualLending-May2009\\_0.pdf](http://financialaccess.org/sites/default/files/GroupversusIndividualLending-May2009_0.pdf)*

This study, which was carried out in Caraga, Philippines, included two separate experiments, which allowed for a comparative analysis of the merits of a group-liability lending scheme versus an individual-liability scheme. Group-liability schemes are described as involving “collateral replacement,” in that - in lieu of collateral - members put social pressure on each other to repay and even help each other do so because no one in the group can receive further loans if even one person defaults. An individual-liability scheme has no such mechanism, thus it is sometimes thought to expose the lender to greater risk.

Green Bank is a microlender with group-liability and individual-liability branches. In the first experiment, approximately half of the

161 group-liability branches were, in several waves, converted into individual-liability branches. In the second experiment, eight branches were opened in new areas and randomly assigned to offer either group-liability loans or individual-liability loans or to offer “phase-in” individual-liability loans after the successful repayment of one group-liability loan. All initial loans were for USD 18 to USD 90, with an interest rate of 2.5 percent per month and weekly payments scheduled to be made over eight to twenty-five weeks.

After three years, the main result was that there was no significant difference in repayment rates between the group- and individual-liability borrowers. In the first experiment, this similarity in repayment rates includes borrowers who were clients before the experiment started, new clients who came before conversion to individual-liability lending and new clients who came after conversion.

The results are similar in the second experiment. There is almost no difference in repayment rates between those under group liability, those under individual liability and those who began under group liability but were phased into individual liability. This is contrary to the idea that collateral or peer

pressure is needed to maintain a high repayment rate and the idea that group-liability schemes necessarily attract less risky clients than individual liability schemes.

These results might partially be explained by the fact that all individual-liability payments were made at one time, resulting in some social pressure to repay. It would then make sense that those with “weaker social networks” prior to conversion to individual liability were more likely to default after conversion, as was the case in this study. The unchanged repayment rates in the “phased-in” group (in the second experiment) could be explained by the fact that an extra 90 minutes per week was spent by loan officers with this group on “repayment activities.” This cost somewhat blurs the seemingly equal repayment rates of the borrower types.

Lastly, although this study did not concentrate on profitability, the authors make it clear that the results are ambiguous as far as what would lead to more profitable banks. For example, although repayment rates remained high and client growth was higher for centers that were converted to individual liability, savings and loan sizes were reduced among those clients.

# Welcome MFI Leaders

(Our audience just  
took a big jump.)

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

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

**2009: The complete edition of *The MicroCapital Monitor* will be delivered every month to an additional 1,000+ MFI leaders**

 MicroCapital





Led by industry players and recognised as the forum where relationships and deals are made... you will not want to miss this year's...

## Microfinance Investment Summit

6 - 7 October 2009, London UK

Book now to secure your place, as a MicroCapital Monitor Subscriber save 10% by quoting: 864F10.MCAP.

To register visit [www.MicrofinanceSummit.com](http://www.MicrofinanceSummit.com), call +44(0)20 7878 6888 or email [registrations@C5-Online.com](mailto:registrations@C5-Online.com)



## PERFECT POINT PARTNERS

Consultants for Microfinance and Microenterprise



[www.perfectpointpartners.com](http://www.perfectpointpartners.com)

## Expertise for Transparency in Microfinance

**MicroFinanza Rating:**  
your Best Partner for Rating and Social Rating

[info@microfinanzarating.com](mailto:info@microfinanzarating.com)  
[www.microfinanzarating.com](http://www.microfinanzarating.com)

Italy | Ecuador | Kenya | Kyrgyz Republic | Nicaragua | Mexico



MICROFINANZA RATING



## MicroCapital Monitor

Want your news covered?  
Send it to us at  
[info@microcapital.org](mailto:info@microcapital.org)

### Expanding Microenterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila

By Dean Karlan and Jonathan Zinman, published by the Financial Access Initiative and Innovations for Poverty Action, July 2009, 33 pages, available at: <http://financialaccess.org/node/2149>

This paper examines the effect of the extension of microcredit in the Philippines. The people who received loans - the treatment group - were selected randomly from a group of first-time applicants deemed "marginally creditworthy" based on personal financial data. Those not randomly selected - the control group - did not receive loans. Loans ranged from the equivalent of USD 100 to USD 500 and were based on individual-liability (as opposed to group-liability). A survey was taken at the end of one year, seeking data on the final month of that year.

The extension of credit seems to have led to an increase in collateral-free borrowing. Credit access did not increase investment and actually

caused a shrinking of business size. Profits increased in the treatment group, but no increase in household income or consumption was observed. Male children became more likely to go to school as opposed to working at home or at a paid job. There was move to informal insurance, but no change was noted in subjective well-being. Lastly, the positive results in borrowing and profits are stronger among men and among those with incomes above the median of study participants. This is notable, as microfinance has generally been intended to help women and people with lower incomes.

In terms of borrowing impact, extension of credit led to a 9.6 percent increase in borrowing from banks offering small, collateral-free loans. The increase in borrowing was stronger among males (16.3 percent) than females (7.8 percent), and stronger among those with incomes above the median (10.5 percent) than those below the median (8.4 percent). The rate of informal borrowing fell (-3.6 percent), while total borrowing changed very little.

Business outcomes were surprising to the authors: investment in neither labor, inventory nor fixed capital changed significantly. In fact, there was evidence of an overall shrinking in business size due to a re-optimization of labor levels. The authors hypothesize that as credit was extended, employers were more likely to shed employees that were only employed as a result of favor trading with a friend or relative of said employee. This would explain why, despite the lack of increase in investment, profits of the treatment group were USD 50 higher than those of the control group. Again, the profit increase for men (USD 260) was greater than for women (USD 45).

Additionally, those above the median income level produced a USD 98 increase relative to the control group, while those below the median produced only a USD 14 increase.

Perhaps counter-intuitively, households receiving loans became less likely to use formal insurance, with the likelihood of having any type of insurance decreasing by 7.9 percent. Informal insurance, however, seemed to increase, and households were nine percent more likely to say that they "could get unlimited financial assistance from family or friends in an emergency."



The study also tested subjective measures of well-being such as “optimism, calmness, (lack of) worry, life satisfaction, work satisfaction, job stress, decision making power and socio-economic status,” by way of survey questions. There appeared to be no significant change in these subjective measures after credit access. Additionally, relatively objective measures of well-being, such as household income and consumption showed no increase, despite the fact that profits increased. The authors see this as evidence that profits were used to send male children to school as opposed to having the children work to supplement family income. This is evidenced by the fact that those in the treated group became 16.8 percent more likely to send a male child to school.

Overall, the authors see these results as an indication that microfinance practitioners should question some standard beliefs. The fact that men and relatively high-income people saw positive results, for the authors, challenges the notion that microfinance should necessarily target women and the “poorest of the poor.” They also feel that the move away from formal insurance, as well as the lack of increase in income or consumption, shows that the focus on business loans as opposed to providing loans for household spending may be misguided.

### Emerging Markets in Microinsurance

*Published by Arthur D. Little, August 2009, 4 pages, available at: <http://www.adl.com/reports.html?&view=421>*

Arthur D. Little (ADL), a global management consulting firm specializing in strategy and operations management, published this report on microinsurance, which provides coverage for individuals living in the high-risk environments that are characteristic of developing countries. Natural disasters, chronic illness and drought can all jeopardize an individual's ability to work. Thus, the authors declare the bottom of the pyramid (BOP) an attractive and growing market for insurance companies. As stated in the report, “microinsurance aims to help those at the bottom of the pyramid (BOP) to stay above the poverty line even when they are hit by an adverse event. It does this by providing risk protection at very low premiums.”

## SUBSCRIBE TO THE MICROCAPITAL MONITOR

***Issues of the MicroCapital Monitor are available only by paid subscription. Please subscribe today to support a representative voice for microbankers and investors at MicroCapital.org or by calling +1 617 648 0043. Subscriptions include twelve monthly issues and access to all back issues.***

**Bronze: USD 149 per year - Sent to one email address**  
**Silver: USD 299 per year - Emailed to three people at an organization**  
**Gold: USD 699 per year - Customized, organization-wide access**  
**Discount: USD 99 per year - Available only OUTSIDE rich countries**

The report identifies three criteria in the success of a microinsurance scheme: volume, simple quality at the best price and tailored distribution techniques. The Datamonitor Group, a business information provider, reports that approximately four billion people live on less than USD 2 per day, comprising an insurance market of up to USD 90 billion per annum. This volume, according to ADL, is the basis for ROI, particularly in low-margin business models. That is to say, even if per-customer profits are low, such profits can create a significant return for shareholders when multiplied by large numbers of customers.

While this may seem like an attractive opportunity for insurance companies, there are several obstacles of which companies should be aware. First, the authors emphasize that traditional insurance plans cannot be successfully marketed to BOP consumers. This is purportedly due to a lack of understanding of insurance plans by low-income consumers. ADL suggests that poor customers require a more regular and tangible return on their commitment to microinsurance. “It is difficult to persuade [low-income consumers] that they are getting value for their money, especially if they do not [make a] claim.” The report suggests cash-back benefits to address this issue.

Furthermore, insurance companies need to be aware of infrastructure barriers to the marketing and servicing process: unreliable electricity supply, poor water quality, etc. This awareness is important so that suppliers of microinsurance can account for and invest in loss-prevention measures by working with local organizations to ameliorate these issues and thus “reduce claims for health and life insurance.”

Additionally, ADL explicitly states that distribution is not the forte of most insurance companies. It is recommended that insurance companies intending to provide microinsurance services collaborate with local microfinance institutions to leverage their infrastructure to gain sustainable access to the target market. As other studies have suggested, microinsurance schemes are more likely to succeed when insurance companies work in collaboration with community-based organizations that already have the trust of the target market. Furthermore, to build trust in the product, insurers need to provide training and educational sessions on the concept and benefits of insurance within a local context. One example is the financial literacy workshops offered by the South African Insurance Association. The report also suggests that insurers become familiar with and utilize the types of technologies microfinance institutions are currently using with their consumers such as ATMs with biometrics, smartcards, point-of-sale devices, etc.

Other research by Giné and Yang, who tested the marketability of microinsurance to farmers in Malawi, indicated that farmers preferred credit without insurance over a package that included credit and rainfall insurance. Giné and Yang attributed this discrepancy to the farmers' uncertainty about the insurance product. In response to this uncertainty, ADL and others have suggested suggest a simple insurance scheme with fewer thresholds and payment schedules. The assumption is that simplicity in an insurance plan and a farmer's tendency to purchase the plan are positively correlated.

Insurance companies that have marketed their services to poor people include Zurich Financial Services, Allianz and Munich Re. 🇪🇺