

MICROCAPITAL BRIEFS | TOP STORIES

Deals Pick Up in India After Publication of Draft Microfinance Bill

The July publication of India's draft "Microfinance Institutions (Development and Regulation) Bill" may have broken the sector's funding logjam. Under the terms of the draft, the entire microfinance sector would fall under the jurisdiction of India's central banking authority, the Reserve Bank of India. State legislation, including the Andhra Pradesh Law that was enacted in late 2010, would be nullified. The draft bill would establish a "Microfinance Development Council" and a "Microfinance Development Fund," which would disburse Finance Ministry funding for on-lending, capacity building programs and other purposes. N Srinivasan, the author of ACCESS Development Services' annual "Microfinance India – State of the Sector Report," praises the bill for its focus on client protection, credit bureau enrolment, homogeneous procedures and framing loan terms with effective annual percentage rates inclusive of interest rates and fees. However, calling the financial penalties for infractions "paltry," Mr Srinivasan calls for fines that are proportional to the size of the lender. As a result of the relative certainty in the sector and as several microfinance institutions (MFIs) reportedly experience an increase in repayment rates, S N Mishra, a general manager at the commercial Indian Overseas Bank, was quoted as saying "risk factors have eased" and that the bank is now ready to consider disbursing new loans to MFIs. Meanwhile, the World Bank Group's International Finance Corporation is purportedly close to approving an investment equivalent to USD 29 million in Bandhan Financial Services, an MFI based in the state of West Bengal. Unitus Capital, a private equity firm based in Bangalore, reportedly is working on deals with five unnamed MFIs worth a total of USD 43 million. Other transactions involving Indian MFIs are covered on Pages 2, 3 and 4 of this newspaper. August 15. 2011

IFC, FMO Loan \$30m to Costa Rica's Coopenae for Housing, SMEs

The International Finance Corporation, the private-investment arm of the World Bank Group, and the Netherlands Development Finance Company (FMO, in Dutch), a public-private partnership, will each provide local-currency loans equivalent to USD 15 million to Costa Rica's National Cooperative of Educators (Coopenae), a finance company that provides credit, savings and insurance products. Coopenae, which reports USD 600 million in assets and 50,000 clients, will use the funds to expand its housing finance program for low-income families, as well as its lending to small and medium-sized enterprises. August 3. 2011

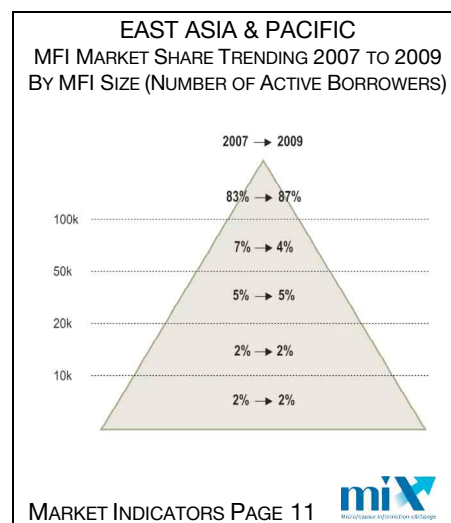
EBRD to Loan \$14m to Banca Intesa Beograd of Serbia for SMEs

The European Bank for Reconstruction and Development, a UK-based development finance institution, has agreed to loan the euro equivalent of USD 14 million to Banca Intesa Beograd (BIB), a Serbian commercial bank, to boost on-lending to small and medium-sized enterprises in support of productivity increases and modernization. BIB is a member of Italy's Intesa Sanpaolo, a commercial banking group with assets of USD 881 billion and subsidiaries in 17 countries. BIB reports total assets of USD 4.3 billion. August 2. 2011

\$21m European Solidarity Financing Fund for Africa Launched

The European Solidarity Financing Fund for Africa (FEFISOL, in French) has been launched with the equivalent of USD 21.6 million in funding to be directed in local currency to microfinance institutions, organizations of organic food producers and others involved in fair trade. Commitments to date include a USD 4.32 million loan provided by Agence Française de Développement, USD 7.2 million from the European Investment Bank, USD 7.77 million from the Investment and Support Fund for Africa, USD 2.59 million from the Norwegian Microfinance Initiative and unspecified amounts from Crédit Coopératif, Società Europea Finanza Etica ed Alternativa, Développement international Desjardins and Fondation Caritas France. August 1. 2011

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MICROCAPITAL BRIEFS

MFC Reaches 100,000 with Financial Education in Europe, Asia

The Microfinance Centre for Central and Eastern Europe and the New Independent States, a network of 110 microfinance institutions, has announced that its Financial Education Program has reached 100,000 households with the aim of “improving the financial capabilities and encouraging proactive financial behaviour of low-income households in Eastern Europe and Central Asia.” August 18, 2011

Internet-free “Global Disability Rights Library” Offered

Sixty copies of the Global Disability Rights Library, which was created by the US International Council on Disabilities and the University of Iowa’s WiderNet Project, are being made available to organizations with limited internet access to deliver information to people with disabilities, policy makers and practitioners in an effort to increase the inclusion of people with disabilities in development programs. Applications may be made through September 1 via <http://www.widernet.org/digitalibrary/GDRLSiteSelection>. August 18, 2011

Smart Campaign Revises “Client Protection Principles”

The Smart Campaign, which is housed in nonprofit ACCION International’s US-based Center for Financial Inclusion, recently announced revisions to its “Client Protection Principles,” which are intended to help microfinance institutions improve their performance through good ethics. The revised principles address financial products more broadly, focusing less on credit. Additionally, the principles now oppose discrimination “on the basis of gender, ethnic origin, religion or disability.” August 17, 2011

Indian MFIs Share, Spandana Sphoorty, Asmitha Consider Merger

As part of ongoing efforts to manage significant losses in the state of Andhra Pradesh, Indian microlenders Share Microfin Limited, Spandana Sphoorty Financial Limited and Asmitha Microfin Limited reportedly are considering merging with one another. Spandana Managing Director Padmaja Reddy has been quoted as saying that, “It is a long process. We need to take approvals from the bankers and other investors before going in for the merger. We will focus on the merger aspect after the execution of the [corporate debt restructuring] package...”. All three lenders are awaiting word on a proposal to restructure the equivalent of USD 1.1 billion in debt that was submitted for approval to the Reserve Bank of India in June. August 17, 2011

Survey: Nigeria Trails Peers in Financial Access

Nigerian nonprofit Enhancing Financial Innovation & Access recently released its “Access to Financial Services in Nigeria 2010 Survey,” which indicates that 46 percent of Nigerians are financially excluded, compared with 26 percent of South Africans, 33 percent of Kenyans and 33 percent of Batswana. An estimated 30 percent of adult Nigerians - 25.4 million people - have bank accounts, while 67 percent - 56.9 million people - have never been “banked.” August 16, 2011

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Myanmar’s Microfinance Plan Faces Pessimism

Norwegian nonprofit Democratic Voice of Burma recently cited corruption and macroeconomic instability as potential threats to the effectiveness of a microfinance scheme that is being developed by the government of Myanmar (Burma). The poverty-alleviation impact of a pilot project was reportedly minimal due to government officials either directing loans to family and friends or simply pocketing the money themselves. Expressing the importance of job creation, an unnamed local resident was quoted as saying, “If they give out a MMK 30,000 (USD 40) loan, for example, one can pay back other urgent debts but have no chance to save enough to repay the loans.” August 16, 2011

54% of Nepalese Households Within Walking Distance of Coop

Nepal’s Central Bureau of Statistics recently released the Nepal Living Standard Survey, which indicates that the percentage of households borrowing from local moneylenders has decreased from 40 percent to 15 percent since the last survey, which was conducted in 1995 and 1996. Since that time, the total incidence of indebtedness has increased from 61 percent to 65 percent of households, as borrowing increased from the following sources, in decreasing order of usage: relatives, commercial banks and cooperatives and microfinance institutions. Within a 30-minute walk from their homes, 40 percent of people can now reach a commercial bank, and 54 percent can reach a cooperative, up from 21 percent and 26 percent, respectively. August 16, 2011

Vision Loans \$5m in Colombia, Kazakhstan, Russia, Philippines

Absolute Portfolio Management GmbH, an Austrian investment company that specializes in microfinance, recently reported that the Dual Return Fund, a sub-fund of Absolute’s Vision Microfinance, made debt investments totaling USD 5 million in unnamed microfinance institutions (MFIs) in Colombia, Kazakhstan, Russia and the Philippines. As of July, Dual Return reports a total fund volume equivalent to USD 115 million and loans issued to 62 MFIs in 26 markets. August 16, 2011

MFTransparency Partners with AMOMIF in Mozambique

MFTransparency, a US-based NGO that aims to calculate and publicize comparable microloan pricing data, recently announced plans to expand its Transparent Pricing Initiative in partnership with the 28-member Associação Moçambicana de Operadores de Microfinanças. A workshop in Maputo on August 23 will launch the effort to provide both financial literacy training and the data needed to make informed borrowing decisions. MFTransparency has so far released pricing data from nine countries and is in the process of collecting data from an additional 16. August 14, 2011

Criteria Adjusted for Social Performance Reporting Awards

The Social Performance Reporting Awards, which are administered by the Microfinance Information Exchange (MIX), this year will recognize “good practices in social performance management” in addition to promoting microfinance institutions (MFIs) on the basis of transparency, as they have since 2009. To be eligible for the 2011 awards, MFIs must report to MIX by September 30. More details may be had from Micol Pistelli via +1 202 659 9094 or mpistelli@themix.org. August 13, 2011

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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!

responsAbility Disburses \$4m in Equity and Debt in Central Asia

Switzerland's responsAbility Social Investments recently reported to MicroCapital that it made the following investments through its Global Microfinance Fund: a debt investment of USD 2.6 million and an equity investment of USD 1.3 million in Bai Tushum, a microfinance institution in Kyrgyzstan that reports total assets of USD 59 million; a local-currency loan equivalent to USD 797,000 to Arnur Credit of Kazakhstan, which reports total assets of USD 7.5 million and a gross loan portfolio of USD 6.1 million; and a local-currency loan equivalent to USD 498,000 to Bereke, which reports total assets of USD 4.3 million and is also located in Kazakhstan. August 13, 2011

IFC, Africa Capitalization Fund Investing \$10m in Malawi's NBS

The International Finance Corporation (IFC), the private-investment arm of the World Bank Group, has announced that two funds it manages, the IFC Capitalization Fund and the Africa Capitalization Fund, will invest a total of USD 10 million in equity in Malawi's publicly traded NBS Bank (formerly the New Building Society), which reports assets equivalent to USD 245 million. NBS Chairman Felix Mlusu stated the funding will be used to "develop innovative products for agribusiness and small and medium size portfolio borrowers." August 12, 2011

responsAbility Loans \$749k to Uganda's Pearl, Morocco's Karama

Switzerland's responsAbility Social Investments has reported to MicroCapital that it recently loaned USD 500,000 through funds it manages to Association Al Karama de Micro Credit of Morocco, which reports total assets of USD 5.6 million, a gross loan portfolio of USD 4.8 million, 15,300 borrowers, return on assets of 0.69 percent and return on equity of 1.55 percent. Uganda's Pearl Microfinance Limited, which reports having disbursed loans of USD 7.6 million, borrowed the local-currency equivalent of USD 249,000. August 12, 2011

India's Universal Sampo Expands Microinsurance Lineup

Universal Sampo General Insurance Company Limited (USGI), an Indian venture controlled by Japanese insurance company Sampo Japan Insurance and a group of unidentified Indian companies, recently announced that it has submitted two new microinsurance products for regulatory approval. Saral Suraksha Bima is designed to provide sickness and injury coverage, and Sampoorana Suraksha provides coverage ranging from health to home and contents insurance. Since February 2008, USGI has offered health insurance bundled with other microfinance products through partner institutions. USGI is capitalized with shareholder funds equivalent to USD 50 million. August 12, 2011

responsAbility Loans \$3m in Cambodia, Indonesia

responsAbility Social Investments of Switzerland recently reported to MicroCapital that funds it manages have loaned a total of USD 1.5 million to Hattha Kaksekar Limited, a Cambodian microbank with total assets of USD 47.6 million, a gross loan portfolio of USD 44.3 million, 47,900 borrowers, return on assets (ROA) of 4.43 percent and return on equity (ROE) of 21.2 percent. The responsAbility Global Microfinance Fund also loaned the local-currency equivalent of USD 1.5 million to Mitra Bisnis Keluarga Ventura of Indonesia, which reports total assets of USD 22.1 million, a gross loan portfolio of USD 16.9 million, ROA of 3.85 percent and ROE of 22.7 percent. August 12, 2011

Philippines Mobile Banking Market Handles \$10b in Transactions

Bangko Sentral ng Pilipinas reportedly has calculated that the total number of mobile banking transactions in the country reached 150 million through December 2010 with a value equivalent to USD 10.4 billion. The 1000-member GSM (Global System for Mobile Communications) Association reportedly attributes the growth to the high SMS (text messaging) literacy rate of mobile users, clear regulatory support and quality products from mobile service providers. August 11, 2011

Portfolio, Operational Risks Surface in Egypt, Tunisia, Yemen

Sanabel, a network of 83 microfinance institutions (MFIs) in Arab countries, has reportedly found that MFI portfolio-at-risk (PAR) ratios rose between March 2011 and April 2011 to 5.87 percent in Egypt and 2.23 percent in Tunisia from unspecified benchmarks following the eruption of social unrest and political instability in those countries, which has resulted in enforced office closures and curfews that have curtailed the collection of repayments. A survey from the Yemen Microfinance Network indicates that 88 percent of Yemeni MFIs have had their operations "impeded" by problems such as fuel and electricity shortages amid political upheaval in the country. July 29 and August 11, 2011

responsAbility Invests \$4m in BiH, Kosovo, Georgia

Switzerland's responsAbility Social Investments has reported to MicroCapital that it has made loans totaling the following amounts: the local-currency equivalent of USD 2.15 million to Mikrofin Banja Luka, a microcredit provider in Bosnia and Herzegovina that reports total assets of USD 145 million; USD 715,000 to the Agency for Finance in Kosovo, which reports total assets of USD 12.2 million; USD 1 million to Credo, an LLC in Georgia that reports total assets of USD 44.5 million; and USD 500,000 to Joint Stock Corporation Crystal of Georgia, which reports total assets of USD 9.2 million. August 11, 2011

Islamic Microfinance Network Recruits Members

The Islamic Microfinance Network, a Pakistan-based nonprofit that aims to promote Islamic microfinance worldwide, recently announced the opening of its membership to academicians, advisors and institutions practicing Islamic microfinance as "Permanent Members" and to conventional microfinance institutions as "Observer Members," so they may "learn more about Islamic microfinance." Current network membership numbers are not available. August 10, 2011

Industry Players Defend Indian Microfinance

The Times of India newspaper recently covered various arguments against regulators unduly constraining microfinance institutions (MFIs). Ela Bhatt, the founder of India's Self Employed Women's Association Bank, was quoted as stating, "Some MFIs have gone on the wrong path and should be punished, but small and mid-sized NGO oriented MFIs, who are doing a good job, must not be allowed to die." Managing Director Padmaja Reddy of microlender Spandana Sphoorty reportedly warned that moneylenders would harm poor people if MFIs falter: "Nearly 70 to 80 percent of former MFI employees have started money lending as they are familiar with the MFI model. One of our former regional managers is giving loans of around [USD 44], for which [USD 53] has to be repaid in 12 weeks, a whopping 160 percent effective rate of interest." August 9, 2011

BSFL of India Raises \$150m "Lifeline"

Bhartiya Samruddhi Finance Limited (BSFL), a microlending member of India's BASIX Group of companies, has reportedly raised the equivalent of USD 150 million in debt and equity commitments in what has been described as a "lifeline" by BASIX chairman Vijay Mahajan. BSFL will receive at least USD 107 million from unnamed commercial banks, USD 16 million from the Small Industries Development Bank of India and USD 5.3 million from India's HDFC Bank Limited. The following institutions will jointly invest a total of USD 22 million: the International Finance Corporation, US-based Matrix Partners, India's Axis Bank, India's Lok Capital and the Hivos-Triadodos Fund of the Netherlands. In the last year, BSFL has had to write off approximately USD 100 million in bad loans in the state of Andhra Pradesh. To close the deals, Mr Mahajan may be asked to provide a personal guarantee, while commercial banks may seek seats on the board of BSFL. As of March, BSFL reported a gross loan portfolio of USD 281 million. August 9, 2011

South Africa Releases Microinsurance Framework

The National Treasury of the Republic of South Africa recently released “The South African Microinsurance Regulatory Framework” as part of an effort “to improve access to insurance and consumer protection for the lower income families in the country.” One element of the strategy is to increase competition in the insurance market by reducing barriers to entry. The policy document is expected to lead to either the amendment of existing insurance legislation or the creation of a standalone Microinsurance Act, with draft text to be released for comment by 2012 and presented to Parliament in 2013. August 9, 2011

India's Satin Creditcare Raises \$22m in Capital, Securitizations

Satin Creditcare Network Limited, an Indian microfinance institution (MFI), recently announced that its credit rating was upgraded to “MFI 2” by India's Credit Analysis & Research following this fundraising streak: an equity investment equivalent to USD 9 million from US-based ShoreCap II Limited and Danish Microfinance Partners K/S in December 2010 and February 2011; USD 2.7 million in secured non-convertible debentures sold in March to a member of US-based Developing World Markets; and securitizations totaling USD 10.6 million sold to Indian investors Reliance Capital, Ratnakar Bank and Axis Bank between March and June. Satin reports a loan portfolio of USD 47 million outstanding to approximately 235,000 active borrowers in eight states. August 9, 2011

MIF Approves \$4.9m for Root Capital for Central American Coops

The Multilateral Investment Fund, a member of the US-based Inter-American Development Bank Group, will give a USD 4.9 million loan and technical assistance package to Root Capital, a US-based nonprofit investment fund that serves agricultural businesses that are considered too small for mainstream banks and too large for microlending. A loan of USD 3 million will be used to expand financing for organizations in Honduras, Guatemala and Nicaragua such as organic coffee and sugar cooperatives, with Root Capital expecting to leverage the loan to raise an additional USD 13 million from local financial institutions. A grant of USD 1.9 million is intended to strengthen the financial management of Root Capital investees. Root Capital reports total assets of USD 63 million and gross loan portfolio of USD 47.5 million. August 8, 2011

Advans Wins \$4m in Grants from AFD, OeEB

Advans SA, a microfinance venture capital company managed by Horus Development Finance of France, recently announced the following grants from Agence Française de Développement, an instrument of the French government, to Advans-affiliated microfinance institutions (MFIs): the equivalent of USD 624,000 for Advans Banque Congo to boost services for small and medium-sized enterprises in the Democratic Republic of the Congo; USD 1 million for Advans Cote d'Ivoire, which is scheduled to open in 2012; and USD 2.1 million for the creation of three new MFIs, possibly in Africa, Asia and the Middle East. Oesterreichische Entwicklungsbank, the development bank of Austria will provide Advans SA with a technical assistance grant of USD 709,000. Advans SA also backs MFIs in Cambodia, Cameroon, Ghana and Tanzania. August 8, 2011

Media Praises Potential of Mobile Banking in Africa

According to a recent story published by *The Guardian*, a British newspaper, Africans are poised to use their 500 million mobile phones to complete USD 1 trillion in transactions by 2015. The article also highlights an initiative of the US-based nonprofit Grameen Foundation, whereby phones are leased to 500 farmers who are paid to disseminate information on planting techniques, disease diagnostics and market pricing. In Nigeria, the postal service is looking to act as a financial intermediary between banks and customers, and the Central Bank of Nigeria is encouraging the use of electronic payments through its “Payments System Vision 2020.” August 8, 2011

On the Risks and Benefits of Microsavings

A recent article from Canadian newspaper *The Globe and Mail* describes microsavings as less risky than credit and cheaper for both clients and financial institutions. The World Savings Bank Institute, a banking association based in Belgium, predicts the number of savings accounts used by poor people to double by 2014. However, the US-based Financial Access Initiative recently pointed out that hyperbolic discounting, the fact that savings do not noticeably appreciate from day to day, can be a disincentive to saving money. Another concern is the security of deposits, as many financial institutions in developing countries do not offer deposit insurance. August 7, 2011

United Bank of India to Loan \$22m to India's Bandhan

The government-owned United Bank of India recently sanctioned a loan worth the equivalent of USD 22.5 million to Bandhan Financial Services, a microfinance institution (MFI) in India. This is reportedly the largest loan to an MFI in the country since multiple suicides by borrowers in the Indian state of Andhra Pradesh were blamed on pressure to repay microloans in 2010, leading to the government adopting loan size, interest rate and margin caps. Ramesh Ramanathan, the founder of MFI Janalakshmi Financial Services, was quoted by Indian newspaper *The Economic Times* as saying, “The worst is over. There is a definite opening up of bank credit.” August 6, 2011

Citi, OPIC Loan \$20m to Indonesia's Bank Danamon

Citi Indonesia, an arm of the global financial services company Citi, and the US government's Overseas Private Investment Corporation recently announced a USD 20 million loan to fund the “Danamon Simpan Pinjam” (DSP) microfinance program of Bank Danamon of Indonesia. Minhari Handikusuma, Danamon's director for Micro Business, stated, “This loan will strengthen our commitment...to pursue our vision to ‘enable millions to prosper.’ This year, we will open around 157 new DSP's outlets across Indonesia to establish [a] total of more than 1,200 DSP's outlets...”. Bank Danamon reports a micro- and small enterprise loan portfolio equivalent to USD 3.1 billion, which is approximately one third of its gross loan portfolio. August 5, 2011

InVenture Supports Enterprises in Moving to Traditional Banking

InVenture, a US-based service focused on investing in small enterprises in poor countries, recently announced a “peer-to-peer” fundraising website through which users may invest as little as USD 25 and withdraw their principal - but no interest - upon repayment. In its first year, InVenture disbursed loans of up to USD 10,000 to 36 business owners, with interest based on a percentage of monthly gross revenue. Reporting is performed on a daily basis via SMS (text message), allowing for the creation of an income statement that may help the entrepreneurs secure future financing from mainstream banks. August 5, 2011

IFC to Hold Workshop on “Equator Principles” for Thai Banks

The World Bank Group's International Finance Corporation recently announced that it is holding a workshop on its “Equator Principles” in association with the Thai Bankers' Association to help local lenders increase the sustainability of financed projects by better managing environmental and social risks. August 5, 2011

On Empowering Women in Non-financial Arenas

A recent entry on the Gender Debate blog cites “Microfinance: Champion in Poverty Alleviation and Failure in Female Empowerment,” a report by Alexandra Dobra of the French Fondation Nationale des Sciences Politiques, to argue that most microfinance services focus only on the financial empowerment of women, wasting their potential to enable “women to participate in decision-making processes above and beyond the family context,” such as by fighting discrimination and participating in politics. August 5, 2011

MICROFIS Partners with NYSE Alternext, MicroRate

Microfinance Investment Services (MICROFIS), a French market platform for investors in “responsible finance,” recently obtained accreditation from NYSE Alternext, a small and medium-sized enterprise stock exchange owned by the parent of the New York Stock Exchange, which will allow MICROFIS to guide investors in meeting transparency and legal requirements for investing in companies, including unspecified microfinance institutions (MFIs) that are listed on NYSE Alternext. MICROFIS also announced a partnership with US-based microfinance rating agency MicroRate, whereby MICROFIS will use MicroRate analysis in its internal decision-making. NYSE Alternext has 126 listed companies that have raised the approximate equivalent of USD 3.1 billion. August 5, 2011

Fundación BBVA to Rebrand Chile's Credicoop as Emprende

Fundación BBVA Microfinanzas, a nonprofit that is affiliated with Spain's BBVA bank, is expanding its operations in the Chilean market by rebranding Servicios Microfinancieros - Credicoop as Emprende Microfinanzas. Fundación BBVA holds 51 percent of the shareholder capital of Emprende, while Credicoop SA retains 49 percent. As of 2009, Servicios Microfinancieros - Credicoop reported assets of USD 17 million, a gross loan portfolio of USD 9 million, return on assets of 7.88 percent, return on equity of 0.5 percent and 6,500 active borrowers. Fundación BBVA also has microfinance operations in Argentina, Colombia, Panama, Peru and Puerto Rico. August 5, 2011

MicroRate Approved as Regulated Rater in Peru

US-based microfinance rating agency MicroRate recently announced that it has been approved by Peru's Superintendency of Banking, Insurance and Pension Fund Managers to conduct the semiannual ratings required of regulated microfinance institutions. US-based MicroRate recently completed 14 years of operation. August 3, 2011

Tameer, AsiaCare Partner to Launch Microinsurance in Pakistan

Tameer Microfinance Bank Limited of Pakistan reportedly is partnering with Pakistan's AsiaCare Health and Life Insurance Company to offer “Tameer Sehat O Sukoon,” a health microinsurance product slated to provide coverage equivalent to USD 400 for an annual premium of USD 7.50. Tameer reports a gross loan portfolio of USD 36.2 million and 111,000 active borrowers. Operational data on AsiaCare are not available. August 3, 2011

EU, UN Urge African Governments to Reach Out to Rural Women

At a recent meeting in Rwanda held in conjunction with the EU and the UN Entity for Gender Equality and the Empowerment of Women (UN Women), African governments were urged to engage women in rural areas with financial services. Rwanda is one of six African countries now piloting the Gender Equitable Local Development program, which is organized by UN Women and the UN Capital Development Fund to engage women in development efforts. August 3, 2011

Economist, Investor Defend Microfinance from Detractors

Abdul Bayes, a professor of economics at Jahangirnagar University in Bangladesh, recently argued in Bangladeshi newspaper *The Financial Express* against the idea that microcredit NGOs have made many of their borrowers “go broke,” citing a survey indicating that 46 percent of NGO members expressed that their economic condition has improved over time compared with 42 percent of the control group. The Huffington Post, a US-based website, recently published an editorial series by MicroCredit Enterprises Board Chair Jonathan Lewis, in which he argues that “Microfinance is being unreasonably measured and criticized for what it is not.... Individual economic empowerment in remote villages is not macroeconomic development. These criticisms are akin to whining that a rural clinic is not a hospital.” July 20 and August 3, 2011

10 years: a passionate story of innovation

- Creating value through strong and long-term partnerships
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Assets under Management

- USD 1.1 billion
- Invested in 140 MFIs
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The BlueOrchard Group • 32 rue de Malatrex
1201 Geneva, Switzerland • Tel. +41 22 596 47 77
info@blueorchard.com • www.blueorchard.com
Offices in Geneva • Lima • New York • Phnom Penh • Bishkek • Bogota



Kenyan Mobile Carriers Required to Adopt Security Standards

Kenyan authorities are reportedly requiring mobile phone service providers to adopt new measures to protect their systems from improper access and to file related security audit reports on an annual basis. The regulation is consistent with the Payment Card Industry Data Security Standard, a set of policies and procedures developed jointly by four major international credit card companies with the intent of securing credit, debit and cash card transactions and cardholders' personal information. Mobile phone firms reportedly will incur software and contractor costs to comply with the requirements, raising the possibility of increased consumer prices. Currently, 13.8 million people use one such service in Kenya, Safaricom's M-Pesa, which reports a monthly transaction volume equivalent to USD 320 million. August 3, 2011

Nigeria's Lagos State MFI Establishes Artisan Fund

The government of the Nigerian state of Lagos, in partnership with its Lagos State Microfinance Institution, has reportedly established a microcredit facility for artisans through which it will fund the following microfinance institutions to design and promote programs to provide financing, training and related services: Integrated Micro-Finance Bank, GapBridge Micro-Finance Bank, MIC Micro-Finance Bank, LASU Micro-Finance Bank, Ojokoro Micro-Finance Bank, Infinity Micro-Finance Bank, GS Micro-Finance Bank and Townserve Micro-Finance. The size of the fund has not been disclosed. August 3, 2011

Clinton Bush Haiti Fund Giving \$850k to FHAF

The US-based nonprofit Clinton Bush Haiti Fund has agreed to grant USD 850,000 to Fonds Haïtien d'Aide à la Femme (FHAF), a Haitian microfinance institution, to help reinvigorate its lending operations, which are still suffering the effects of the January 2010 earthquake. FHAF plans to use the funding to recapitalize its loan portfolio, invest in technology, hire new staff and provide training to existing employees. FHAF does not make its data available via the Microfinance Information Exchange or other standard sources. The Clinton Bush Haiti Fund reports receiving USD 53 million in donations since its founding shortly after the earthquake. August 2, 2011

State Bank of Pakistan Streamlines Branchless Banking

US-based nonprofit CGAP (Consultative Group to Assist the Poor) reports that the State Bank of Pakistan (SBP), the nation's central banking authority, recently announced branchless banking regulation modifications including: fingerprint scanning is no longer required to open an account, increased transaction limits, the lifting of maximum balances and the introduction of "Level 0" accounts that can be opened electronically. CGAP quotes SBP Director of Banking Policy and Regulations Mansoor Hassan Siddiqui as stating that over "three years' time, I expect...over 30,000 branchless banking agents and at least 5 million branchless banking users." The number of branchless banking accounts now stands at 500,000. August 2, 2011



DKV, Oxfam, Alli Causai to Offer Health Microinsurance in Ecuador

Intermon Oxfam, the Spanish partner of UK-based nonprofit Oxfam International, has partnered with DKV Insurance, a subsidiary of the German reinsurance company Munich Re, to provide microinsurance in the Tungurahua region of South Quito, Ecuador, in cooperation with Ecuadorian healthcare foundation Fundacion Alli Causai. DKV designed the product to serve indigenous families and others in rural communities to offer medical insurance for USD 2 per month. Fundacion Alli Causai acts as a cooperative, pooling members' payments to collect enough cash to cover the predicted costs. Data indicating the scale of the program are not available. August 2, 2011

Dariu Foundation Increases Lending in Vietnam

The Dariu Foundation, a microfinance institution in Vietnam, reports a 25-percent increase in the number of new clients served and a 47-percent increase in the number of loans disbursed during the first five months of this year compared with the same period of 2010. Dariu Director Nguyen Van Hanh reportedly claims that all or nearly all borrowers "overcome poverty" and that, "Several have even become wealthy." Dariu reports total assets of USD 1.9 million, a gross loan portfolio of USD 1.7 million and 13,000 borrowers. August 1, 2011

IFC to Invest \$500m in China in Renewable Energy, MFIs

The International Finance Corporation (IFC), the private-investment arm of the World Bank Group, reportedly plans to invest up to USD 500 million in China during the fiscal year ending in 2012, with emphases on: (1) developing agribusiness and rural finance through microfinance institutions (MFIs); and (2) developing the country's renewable energy industry. The funding breakdown between the two has not been disclosed. According to Ms Sophie Finkelson, IFC's vice president for the Asia-Pacific region, a core component of the investments is "helping banks and micro-finance institutions to better understand how to lend to small business and bring global experience to China." August 1, 2011

India's SKS Reports \$48m Quarterly Loss, Looks to Raise \$200m

SKS Microfinance, a publicly listed Indian microfinance institution (MFI), recently reported a net loss equivalent to USD 48.1 million for the quarter ending in June 2011, compared with a net profit of USD 14.3 million during the same period of 2010. Due in large part to defaults in the state of Andhra Pradesh, SKS experienced a 15-fold year-on-year increase to USD 41 million in provisions and write-offs as compared with the quarter ending June 2010. In an effort to bolster its financial state, SKS reportedly seeks to raise up to USD 200 million by selling banks and private funds new issues of common stock or securities convertible into equity shares. As of March 2011, SKS reports total assets of USD 952 million, a gross loan portfolio of USD 925 million, return on assets of 2.4 percent, return on equity of 7.93 percent and approximately 6.2 million borrowers. August 1, 2011



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CGAP Microfinance Photography Contest Accepting Entries

CGAP (Consultative Group to Assist the Poor), a nonprofit dedicated to facilitating the provision of financial access to poor people, recently opened its 2011 photo contest, which offers a top prize worth up to USD 5,000. Submissions may be made until September 15 via Jeanette Thomas at jthomas1@worldbank.org. August 1, 2011

IICA, Canadian Agencies Tackle \$20m Agricultural Project in Haiti

Développement international Desjardins, a Canadian corporation that provides technical and funding support to developing countries, recently announced that it will coordinate a seven-year, USD 20 million project funded by the Canadian International Development Agency and the Haitian government to establish an agricultural finance and crop insurance system in Haiti. The Canadian nonprofit Financière agricole du Québec - Développement international will set up a trust fund to support the financing of targeted crops, provide partial guarantees to participating financial institutions and design the crop insurance program. The Inter-American Institute for Cooperation on Agriculture, a nonprofit based in Costa Rica, will support the Haitian government in promoting innovative agricultural technologies and aligning its legal framework to facilitate other elements of the program. July 31, 2011

Inclusion "Counterproductive" Without Literacy?

A recent editorial in Indonesia's *The Jakarta Post* argues that the government should facilitate access to financial services with regulatory and other measures, while the private sector should "see the huge untapped market for financial services as a great opportunity for market expansion." However, the authors also indicate that such efforts could be "counterproductive" if financial literacy remains low. July 30, 2011

Global Partnerships, Sustainable Harvest Partner to Fund Coops

Global Partnerships, a US-based nonprofit investor in microfinance, recently announced that it has partnered with Sustainable Harvest, a US-based coffee importer focused on sustainable supply chain practices, to provide USD 963,000 in loans to two fair-trade coffee cooperatives: USD 465,000 to Aprocassi of Peru and USD 498,000 to Café y Desarrollo/REDCAFES of Mexico. The funding is supplied by Global Partnerships and secured by sales contracts with Sustainable Harvest. Café y Desarrollo/REDCAFES consists of 1,500 smaller cooperatives, and Aprocassi consists of 400 individual members. Global Partnerships reports having invested USD 40 million in 28 lenders that together serve 880,000 borrowers in seven Latin American countries. July 28, 2011

Rwanda Looks to Microfinance to Hit Per Capita Income Target

The National Bank of Rwanda reportedly plans to leverage the Umurenge SACCO (savings and credit cooperative) and financial literacy campaigns such as "Access to Finance" forums as part of its strategy to support the country in increasing the national rate of financial access to 80 percent and to reach a target per capita income of USD 1,000 by 2017. As of 2007, an estimated 21 percent of Rwandans had access to financial services. July 28, 2011

MIX Market Now Offers Data from 2,000 Microfinance Institutions

The Microfinance Information Exchange (MIX), a US-based nonprofit organization that runs the MIX Market online database of microfinance information, recently announced that it is now offering information on 2,000 microfinance institutions based in 110 countries that represent 92 million borrowers. Of these institutions, 440 have also submitted social performance data. The MIX Market database is available at <http://www.mixmarket.org/>. July 27, 2011

IFC Establishes \$80m Liquidity Facility for Bangladeshi SMEs

The International Finance Corporation (IFC), the private-investment arm of the World Bank Group, recently announced that it has provided a short-term liquidity facility of USD 80 million to commercial banks in Bangladesh to meet their customers' working capital and trade financing needs following recent market disruptions that have reportedly decreased the availability of foreign exchange. So far, loans have been made to Eastern Bank Limited, BRAC Bank and Southeast Bank Limited. Kyle F Kelhofer, the local IFC country manager, said, "Through the facility, IFC will support the private sector, especially export-oriented companies and small entrepreneurs, who form the backbone of the country's economy." July 27, 2011

European Investment Bank Accepting Risk Research Proposals

The European Investment Bank has issued a call for proposals for universities to win up to the equivalent to USD 430,000 to conduct research on the theme of risk in microcredit, including causes, warning signals and future prospects, with a focus on the Middle East and Africa. Proposals may be submitted in English or French through September 16 via <http://www.eib.org/>. July 26, 2011

Reserve Bank of India Pushes Banks to Boost MSE Lending

The Reserve Bank of India reportedly emphasized to commercial banks at the recent annual review meeting of its standing advisory committee on micro- and small enterprise (MSE) that MSE lending should grow at a rate similar to that of overall bank credit growth, which recently has been approximately 20 percent per year. Mr D L Rawal, chairman and managing director of Dena Bank, reportedly said, "As of now, there are no concerns on asset quality in the sector, but if interest rates keep increasing there could be some non-performing assets across sectors going ahead." July 26, 2011

Wall Street Journal Covers Currency Exchange Fund

The Wall Street Journal, a US-based newspaper, recently reported on the potential of illiquid currencies to negatively impact the loan portfolios of microfinance institutions. The Netherlands-based Currency Exchange Fund is a USD 750 million facility that holds a variety of currencies and uses interest rate derivatives to help wholesale microlenders hedge these foreign-exchange risks. Microfinance investors can take advantage of this service to lend local currency to microlenders, allowing both investors and retail lenders to avoid taking on foreign-exchange risk as well as to avoid passing on this risk to microborrowers. July 26, 2011

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Bank of China, Temasek Launch Village Banks in Rural China

The government-owned Bank of China is partnering with Temasek, an investment house owned by the government of Singapore, to launch village banks in China. Six village banks have been established thus far, with 14 more expected to be operating by the end of 2011. July 26, 2011

IFC to Invest \$13m in Peru's Caja Nuestra Gente, \$4m as Equity

The International Finance Corporation, the private-investment arm of the World Bank Group, recently announced that it will invest USD 4.6 million in equity and USD 9 million as debt in Caja Nuestra Gente, a microfinance institution in Peru owned by Fundación BBVA Microfinanzas, an affiliate of Spain's BBVA bank. The investment is expected to help Caja Nuestra Gente double the number of microenterprise loans it disburses over the next five years. Caja Nuestra Gente serves approximately 326,000 clients through 116 offices and is in the process of merging with Financiera Confianza, which is also located in Peru and is majority-held by Fundación BBVA. Fundación BBVA also has microfinance operations in Argentina, Chile, Colombia, Panama and Puerto Rico. July 25, 2011

Compartamos Controls Peru's Crear, Reports 17% Profit Jump

Compartamos, the parent of microfinance institution (MFI) Banco Compartamos, recently announced that it has settled the acquisition of an 82-percent stake in Peruvian MFI Financiera Créditos Arequipa SA (Crear) for USD 63 million. Plans for the transaction were announced by MicroCapital in the April issue of this newspaper. Crear reports total assets of USD 149 million, a gross loan portfolio of USD 131 million, return on assets of 4.98 percent, return on equity of 33.3 percent and 88,600 borrowers. Separately, Banco Compartamos released the following results for the quarter ending June 30: net year-on-year income growth of 17 percent to the equivalent of USD 46 million and 30-percent customer growth to 2.1 million borrowers. Banco Compartamos reports total assets equivalent to USD 1 billion. July 22 and July 25, 2011

IFC Making Equity Investment of \$1m in Advans Cote d'Ivoire

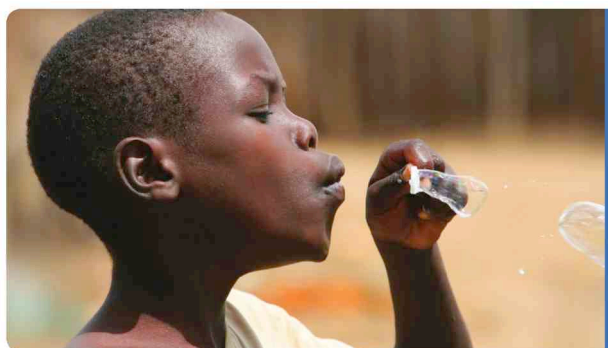
The World Bank Group's International Finance Corporation (IFC) will invest USD 1 million in Advans Cote d'Ivoire, a member of the Advans SA group of microfinance institutions. IFC has previously supported Advans SA's investees in Cameroon, the Democratic Republic of the Congo and Ghana. Advans SA reports an aggregate outstanding loan portfolio equivalent to USD 75.7 million. July 22, 2011

Social Performance Task Force Releases Proposed Standards

The Social Performance Task Force (SPTF), an initiative set up in 2005 to improve social performance management within microfinance institutions, released its proposed Universal Standards for Social Performance at its recent annual meeting in the Netherlands. SPTF defines social performance as "the effective translation of a microfinance organization's mission into practice, in line with social values including serving more poor and excluded people sustainably." The standards cover governance, staff commitment, client protection, products and services that meet client needs, staff treatment, client monitoring and financial performance. SPTF aims to finalize the standards by December. July 22, 2011

AfDB, Spain Accepting Proposals to Capacity Building Fund

The African Development Bank and the government of Spain have established the "Microfinance Capacity Building Fund for Africa" in an effort to promote transparency, provide monetary support to projects that target female empowerment and rural development, provide technical assistance to retail financial institutions, improve market structures and create enabling legal and regulatory environments. Through September 19, the fund is accepting proposals relating to transparency from financial institutions and government agencies in the countries of the Economic Community of West African States. The facility is seeking to award funding to eight to 10 projects, which will each receive the equivalent of USD 275,000 to USD 687,000. July 21, 2011



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FIELD NOTES

Austerity versus Long-term Growth - Really, I'm Talking About Microfinance...

This month, it was hard for anyone *not* to notice certain events in developed countries: the political shenanigans in the US Congress, the downgrading of US debt by Standard & Poor's and the stubbornly expanding crises in Europe. I have the pleasure of writing this entry from Italy, and I can assure you people are feeling the strain here. Even in finer circles, I am hearing things like: "No more bottled water; tap water is fine." This in a country where drinking tap water was once equated with drinking from a sewer. So as we enter a new age (or at least a new few months) of austerity here in developed countries, I thought it would be worthwhile to pick up where I left off last month when I noted that many microfinance institutions (MFIs) need to trim their operating expenses to stay healthy and competitive.

There are uncanny parallels between the microfinance markets and the macroeconomic juncture at which we find ourselves. The microfinance markets that are still growing quickly (let's call them, for the sake of analogy, "emerging microfinance markets") are at some risk of overheating, but can handle current levels of leverage and continued inefficiency in the near term. By padding margins, their growth can support reasonable, though high, debt ratios. However, they should be warned to start planning for worse times, lest the fate of mature markets fall upon them.

On the other hand, more mature microfinance markets (let's call these the "developed microfinance markets") are stuck. After many good years, a number of both emerging- and developed-market MFIs have relaxed their "fiscal" prudence, focusing instead on growing themselves out of inefficiencies. Now, the loan portfolio growth of MFIs is down from an average 44 percent year-on-year in 2007 (based on my back-of-the-envelope calculations using Microfinance Information Exchange

data for those institutions that report portfolio data since 2006 or earlier) to about 21 percent in 2010. Much like with the US economy, slower growth will make it harder to hide inefficiencies. These averages mask the fact that 17 percent of this same sample experienced negative portfolio growth in 2010. Those institutions are the Greece and Spain of microfinance!

Before any suspicions run wild that I am a Tea Party aficionada who believes cost cutting the answer to all ills, I would like to make one last parallel. I agree with Mohamed El-Erian, CEO of Pacific Investment Management Company (PIMCO), who has critiqued the recent budget deal in the US, noting: "When you look at the debt burden, there is a numerator and a denominator. We may end up creating so much damage to the denominator, which is growth of GDP, that what we do in the numerator, reducing the debt, may end up being insufficient." Spending on programs that boost productivity can stimulate and strengthen an economy in the long run. I think there is a controversial, yet interesting, parallel here with microfinance. I have noted more than once that current microfinance practices often don't support microenterprise growth on their own and that, to grow beyond the subsistence level, smaller (usually women-run) businesses need additional help in the form of training, market access and new financial products and services. All these things cost money, yet can help an MFI grow its portfolio by increasing client loyalty, reducing desertion and growing clients' businesses so that they can borrow larger amounts sustainably. The trick, as any developed-country elected official can tell you these days, is finding the money when times are tough!

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has 15 years of international finance and development experience and has worked with organizations including Goldman Sachs, Chase and BBVA and has advised institutions such as the International Finance Corporation, the US Agency for International Development and the International Labour Organization. She may be reached at +1 212 734 6461 or bmagnoni@eac-global.com, or you may follow her on Twitter at [BarbaraatEA](#).

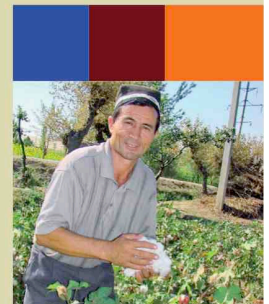
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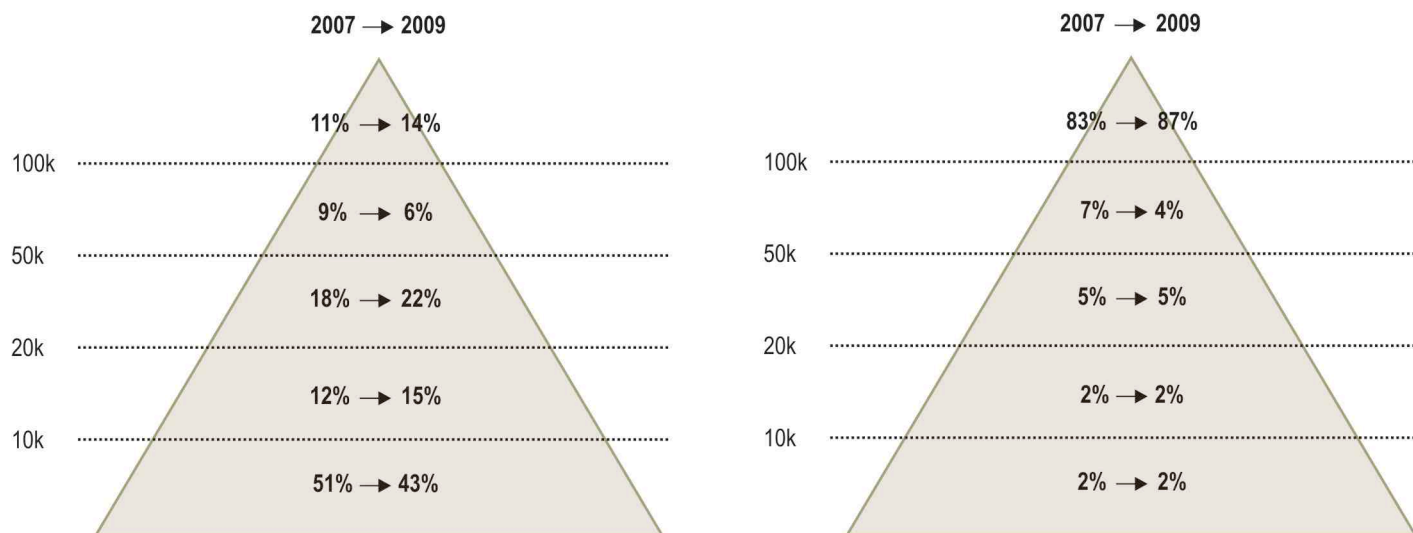
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95 MFIs REPORTING¹

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

MFI NAME	COUNTRY	AVERAGE ANNUAL USD INCREASE	AVERAGE ANNUAL % INCREASE	2007	2009
Vietnam Bank for Social Policies	Vietnam	873,671,737	34	2,181,692,160	3,929,035,635
ACLEDA Bank Plc	Cambodia	111,581,712	31	315,073,984	538,237,407
PRASAC MFI Limited	Cambodia	15,218,733	38	33,990,552	64,428,018
AMRET Company Limited - formerly EMT	Cambodia	11,377,532	32	30,673,888	53,428,951
1st Valley Bank (formerly Rural Bank of Kapatagan Valley Incorporated)	Philippines	9,904,397	25	36,018,304	55,827,098
China Fund for Poverty Alleviation	China	8,963,761	69	9,593,841	27,521,363
CARD Bank Incorporated	Philippines	8,883,056	53	13,230,863	30,996,976
PT BPR Surya Yudha Kencana	Indonesia	8,778,434	25	31,589,146	49,146,014
Sathapana Limited (formerly CEB)	Cambodia	8,615,665	33	22,455,108	39,686,438
Hattha Kaksekar Limited	Cambodia	8,507,569	48	14,165,336	31,180,474

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 2007 - 2009 to MicroBanking Bulletin (MBB) or MIX Market.
Source: Microfinance Information Exchange, Inc., August 2011, based on MFIs reporting to MBB or MIX Market.

UPCOMING EVENTS

Practice meets Theory:

What is the Future of Microfinance in the Post-Yunus Era?

September 2, 2011, Kristiansand, Norway

The Norwegian Centre for Microfinance Research invites you to this event, which will consider whether microfinance still enjoys political and public support, whether social missions will survive in microfinance and new knowledge on commercialization and internationalization.

Participation at the conference is free, but attendees must register by August 20 by e-mailing Roy Mersland at roy.mersland@uia.no. More information is available via +47 38127500 or <http://microfinanceresearch.org/index.php?page=expertise>.

Global Youth Enterprise & Livelihoods Development Conference

September 7 - September 9, 2011, Washington, DC, USA

This conference will offer 25 breakout sessions in five focus areas: workforce development; financial services and literacy; enterprise development; adolescent girls and young women; and monitoring, evaluation and impact assessment. Registration is due by August 19 and costs USD 695. For additional information, you may contact Whitney Harrelson via +1 202 783 4091 or whitney@makingcents.com, or you may visit <http://www.youtheconomicopportunities.org>.

TBLI Conference Asia 2011 (Revised Dates)

September 15 - September 16, 2011, Tokyo, Japan, or Online

This event will cover impact investing and environmental, social and governance issues. The full fee to attend is JPY 100,000 with various discounts available. More details are available from Esther Van Der Weij at +31 (0)20 428 6752 or asia2011@tbli.org or via <http://www.tbliconference.com/tbli-asia2011.html>.

2011 Toronto International Microfinance Summit

September 16 - September 17, 2011, Toronto, Canada

This event includes a fundraising gala and a conference, which will cover domestic and international microfinance with the aim of creating further interest in and knowledge of microfinance. The fee to attend the gala is CAD 250 per person, with a 10 percent discount for tables of 8 or 10 people. The conference fee is CAD 125, with a rate of CAD 100 available to students and all registrations received by September 1. More details are available via <http://www.microfinanceconference.ca/> or info@microfinanceconference.ca, but no telephone number is provided.

5th African Micro Finance Conference

September 19 - September 22, 2011, Addis Ababa, Ethiopia

This event will address innovations in products and delivery systems, social impact, technology, financial literacy, consumer protection and youth employment. The event is organized by the Association of Ethiopian Microfinance Institutions and the Microfinance African Institutions Network. The standard registration fee is USD 650 with a rate of USD 500 available until August 20. For additional information, you may call +251 011 5503829, e-mail aemfi@ethionet.et or visit <http://www.5th-microfinance.com/site/>.

Impact Investing Summit: Advanced Investment Strategies

September 19 - September 21, 2011, Washington, DC, USA

This summit will cover capitalizing on impact investing, how to penetrate the market and standardizing impact measurement. The standard registration fee for for-profit organizations is USD 2099, with add-on workshops available. Lower rates are available for representatives of certain types of organizations, and a 10-percent discount is available to MicroCapital readers indicating the priority code "MicroCapital". More details may be had via info@hansonwade.com, <http://impactinvesting-usa.com/> or +44 (0)203 141 8700.

Mobile Money Southern Asia

September 26 - September 29, 2011, Mumbai, India

This event will cover how to launch mobile money systems, get to market more quickly, structure complex relationships between network operators and banks and extend access to financial services in developing nations. The standard fee to attend is GBP 1599 with add-on workshops and multiple discounts available including for registrations completed by September 2. More details may be had from Paul Hemmings at paul.hemmings@clarionevents.com or +44 (0)20 7370 8881 or via <http://www.mobile-money-transfer.com/southern-asia/>.

Arusha Savings Groups Summit

October 4 - October 6, 2011, Arusha, Tanzania

This conference for savings group practitioners will cover problems, trends and "demand-driven innovations." The registration fee of USD 350 is due September 20. Separately priced workshops on "Community Managed Microfinance" program design and management, "Village Finance" and "How to Add Value to Savings Groups Through Other Activities" will be offered following the summit. For additional details, you may contact Sanjeev Sharma of the Carsey Institute at the University of New Hampshire via smdp.info@unh.edu or +1 603 862 2821, or you may visit <http://www.arushasavingsgroupssummit.org/>.

MORE DETAILS COMING SOON ON...

XIV FOROMIC 2011: Inter-American Forum on Microenterprise

October 10 - October 12, 2011, San Jose, Costa Rica

Near Field Communications - Mobile Payments Forum 2011

October 11 - October 13, 2011, Beijing, China

African Microfinance Transparency Forum 2011 Investor's Fair

October 13 - October 14, 2011, Accra, Ghana

Investment and Innovation in Microfinance: Africa

October 17 - October 19, 2011, Nairobi, Kenya

Opportunity Collaboration

October 17 - October 20, 2011, Ixtapa, Mexico

2011 SEEP Annual Conference

October 31 - November 2, 2011, Arlington, Virginia, USA

Mobile Money Global Summit and Expo

October 31 - November 3, 2011, Dubai, United Arab Emirates

European Microfinance Week

November 2 - November 4, 2011, Luxembourg

Seventh International Microinsurance Conference 2011

November 8 - November 10, 2011, Rio de Janeiro, Brazil

TBLI Conference Europe 2011

November 10 - November 11, 2011, London, UK

Microcredit Summit Campaign 2011

November 14 - November 17, 2011, Valladolid, Spain

X Anniversary National Conference on Microfinance

November 16 - November 18, 2011, Moscow, Russia

Microfinance India Summit 2011

December 12 - December 13, 2011, New Delhi, India

PAPER WRAP-UPS

Shaping our Financial Future: Socio-Economic Impact of Mobile Financial Services

By the Telenor Group and the Boston Consulting Group, published by the Telenor Group, 2011, 32 pages, available at: http://www.telenor.com/en/resources/images/Shaping%20our%20financial%20future%20final_tcm28-58718.pdf

This study investigates what socio-economic effect mobile financial services may have through the year 2020 in Bangladesh, India, Malaysia, Pakistan and Serbia. The study posits that in developing countries more than 2.5 billion adults are “unbanked,” but that most of these people have mobile phones and thus could be served through mobile financial services. Across the countries considered, “mobile financial services have the potential to reduce financial exclusion by 5 to 20 percent through 2020 and increase GDP by up to 5 percent.” The projections include that: mobile financial services may reduce the number of unbanked people in Pakistan by 20 percent by 2020, the number of people with formal savings accounts in India could increase by 142 million, mobile services could increase tax revenues by USD 500 million in Bangladesh, in Serbia such services could lead to 23,000 new jobs, while economic inequality in Malaysia could be reduced by 5 percent.

Strategic Planning: Integrating SPM into Microfinance Capacity Building

By Ewa Bankowska, Anita Campion, Rashmi Ekka, Meryem E Faris, Kasia Pawlak, Volodymyr Tunitsky and Veena Yamini A; published by Imp-Act and MicroSave; 2011; 12 pages; available at: http://spmresourcecentre.net/iprc/assets/File/Strategic_planning_guidance_note.pdf

This “guidance note” highlights three common challenges a microfinance institution may face when working to translate its social aspirations into strategy: “clarifying long-term social goals, specifying short-term social objectives, and underpinning its social intentions with appropriate measurement systems.” The document is also available in French and Spanish.

Small vs Young Firms Across the World: Contribution to Employment, Job Creation, and Growth

By Meghana Ayyagari, Asli Demirgüç-Kunt and Vojislav Maksimovic; published by the World Bank as a working paper; April 2011; 57 pages; available at: http://www-wds.worldbank.org/external/default/WDSCContentServer/WDSP/IB/2011/04/11/000158349_20110411130747/Rend ered/PDF/WPS5631.pdf

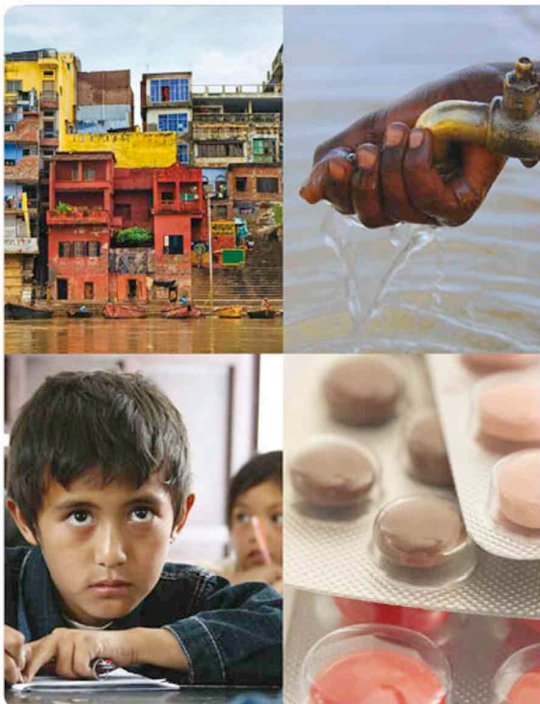
This paper offers data on the contribution of small and medium-sized enterprises (SMEs) and young firms to total employment, job creation and productivity growth across 99

developing economies. The paper includes data collected from 47,745 firms from 2006 to 2010. The sample does not include enterprises with fewer than five employees.

The first finding is that SMEs are the biggest contributors to employment across all countries and they contribute even more to employment in low-income countries than in high-income countries. Specifically, firms that are both old and small (over 10 years old and with 5 to 99 employees) have the largest proportional share of total employment. This is irrespective of the income level of the country. Secondly, SMEs with no more than 250 employees create the most new jobs.

The authors find that small and young firms have the highest employment growth rate, but this faster growth is not accompanied by higher sales or productivity growth. While SMEs employ a large share of workers and create most jobs, their contribution to productivity and growth is “uncertain at best.”

The paper suggests that the challenge for policy makers is to focus on “the obstacles faced by SMEs like lack of access to finance, need for business training and literacy programs” as well as “other constraints like taxes, regulations and corruption.” In addition, the authors emphasize the importance of improving entrepreneurship and innovation among young and small firms.



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Selective Knowledge: Reporting Biases in Microfinance Data

By Jonathan Bauchet and Jonathan Morduch,
published by the Financial Access Initiative at New
York University's Robert F Wagner Graduate School of
Public Service and Hunter College, June 2009, 39
pages, available at: [http://www.nyu.edu/
projects/morduch/documents/articles/2008-06-
Selective-knowledge.pdf](http://www.nyu.edu/projects/morduch/documents/articles/2008-06-Selective-knowledge.pdf)

The authors begin with the idea that developing economic theories and the empirical testing of those theories are of utmost importance for “the creation of economics knowledge,” but that the collection of useful data largely depends on the willingness of households and institutions to respond to questionnaires. The authors consider the implications of such voluntary reporting on knowledge about microfinance. Generally, useful data from poorer countries are difficult to gather. Thus samples seldom fully represent the underlying populations. The authors argue that this problem is also pertinent to microfinance data because microfinance institutions (MFIs) are systematically biased regarding “which survey to respond to and which specific indicators to report.”

The authors consider three sources of microfinance data from the years 2004 to

2006: the MIX Market website of the Microfinance Information Exchange (MIX); the *MicroBanking Bulletin*, which is published by MIX; and data from the Microcredit Summit Campaign (MSC). MIX offers MFI data mostly on financial and institutional indicators, along with a limited amount of data on social performance. *MicroBanking Bulletin* data are from a subset of MFIs from the MIX Market adjusted for improved comparability and implicit subsidies. MSC collects data mostly on social outreach indicators, but from a larger number of MFIs.

As reporting to these databases is voluntary, results based on these data are vulnerable to self-selection bias, which can be manifested in several ways. First, the reporting institutions, which actively choose to share their data, are likely to be different from the non-reporting ones. Second, MFIs self-select into reporting to either one of the databases or both. Finally, MFIs may report some indicators for some time periods but not for others. This paper examines the latter two sources of bias.

The analysis employs data on 2,072 MFIs from the MIX and MSC databases. The authors find that the two databases attract considerably different MFIs. MFIs reporting to MSC are typically larger, more focused on reaching

poor clients and more likely to operate in South Asia. On the contrary, MFIs reporting to MIX Market are more profit-focused and more likely to operate in Latin America, Eastern Europe and Central Asia.

Financial indicators are more often reported than social indicators. Also, reporting patterns are directly linked with the MFIs' regions of operation, missions and sizes, which in turn affect analyses of issues such as trade-offs between financial and social goals. For instance, the relationship between operational self-sufficiency and the percentage of female borrowers is positive in the MSC data but negative in the MIX data. The results emphasize the conditional nature of our knowledge and the value of supporting increased social reporting, which is limited in both of the large data sources.

The authors recommend that donors and policymakers come forward to support MFIs in collecting more consistent data on social outreach with recently improved tools for poverty measurement and information systems. Non-reporting institutions should be encouraged to begin reporting as well. It is hoped that these measures will enrich and reshape the industry's understanding of the microfinance landscape.



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Discovering Limits: Global Microfinance Valuation Survey 2011

By Frederic de Mariz, Xavier Reille and Daniel Rozas; published by JP Morgan and CGAP (Consultative Group to Assist the Poor); July 2011; 29 pages; available at: <http://www.microfinancegateway.org/p/site/m//template.rc/1.9.52137>

In their third annual Global Microfinance Valuation Survey, US-based investment bank JP Morgan and nonprofit research center CGAP (Consultative Group to Assist the Poor) provide an overview of the financial standing of microfinance institutions (MFIs) around the world. Invoking the subtext of “Discovering Limits,” the authors argue that “no longer can microfinance investment be viewed as an exclusively do-good, low-risk, relative safe haven.”

In the first section of the paper, the authors focus on the global microfinance sector and private equity participation therein, using a dataset of 238 equity transactions involving 110 MFIs in 53 countries between 2005 and 2010. Private equity investment in 2010 was dominated by Latin America and the Caribbean (56 percent), with South and East Asia trailing (33 percent) and Europe and Central Asia further behind (7 percent). The only year-on-year increase occurred in the South and East Asia region.

As microfinance markets have begun to mature, many investors are looking to exit the market by selling their stakes, while fewer MFIs are interested in raising growth capital. As primary issuances such as initial public offerings have slowed, they have been replaced with secondary market activity, which now accounts for 70 percent of the value of transactions, up from 12 percent in 2007.

The authors find that earnings multiples, which have historically been a key valuation metric for investors, have lost their reliability over the last year, as a combination of write-offs and increased loan-loss reserves has resulted in ratios that do not reflect underlying institutional quality. In Europe and Central Asia, five out of seven transactions involved an MFI with negative earnings.

The report suggests that the forward book value multiple (price-to-book value) has become a more consistent and accurate indicator of performance. After peaking at an average value of 1.7 in 2009, the forward book value multiple fell to 1.6 in 2010, which is commensurate with the authors’ view of microfinance markets. MFIs in Mongolia, Cambodia, Peru and Tanzania, for example, have seen their price-to-book ratios exceed their historical median, justifying strong investor interest and a willingness to pay a

premium for quality. Other countries, such as Nicaragua, Nigeria and Bolivia, have stagnated in value, as political and regulatory uncertainties contribute to fading investor interest.

South and East Asian institutions have witnessed the greatest volatility in book value multiples, while those of Latin American and Caribbean MFIs have barely fluctuated from a multiple of 1.0. Whereas India was until recently considered a high-potential growth market, valuations have decreased to the world median book value, and the authors expect a further correction in line with regulatory uncertainty, pervasive over-indebtedness and over-reliance on microcredit. On the other hand, Peru’s microfinance sector has passed through its growth phase and holds strong levels of deposits, accompanied by uniform regulation and a functional credit bureau - all signs that point to a stable valuation, even if debt loads are reportedly rising.

The second half of the report focuses on an index of 11 “lower income finance institutions” (LIFIs), which serve as a sample of publicly listed MFIs: Bank Rakyat, Bank Danamon and Bank Tabungan Pensiunan Nasional of Indonesia; SKS Microfinance of India; African Bank and Capitec, both of South Africa; Kenya’s Equity Bank; Compartamos Banco and Financiera Independencia of Mexico; First Cash Financial, which is based in the US; and International Personal Finance of the UK. Because the index is weighted by market capitalization and only includes a smattering of institutions, the authors acknowledge that it is of limited use as a proxy for country performance or market quality (for instance, Bangladesh, Peru and Cambodia are developed microfinance markets that are omitted entirely).

The LIFI index is benchmarked against the MSCI World Financials index, which includes a broad mix of global financial stocks, and the MSCI Emerging Markets Banks index, which is a basket of financial institutions in developing countries. From November 2003 until October 2010, the LIFI consistently outperformed the other financial indices

including during the global financial downturn that began in 2008. But from the time that India’s Andhra Pradesh crunch began in late 2010 until the report’s publication in July 2011, LIFI performance became more volatile, and excess returns were harder to come by. In years when the LIFI index has lagged its counterparts, the problems have typically been confined to just one of the 11 institutions (such as Bank Rakyat in 2005, Compartamos in 2007 and SKS in 2010).

In terms of valuation, the authors find that companies in the LIFI index tend to have a lower earnings multiple (12.9 times) and higher book value (4.2 times) than the companies included in the MSCI World Financials index, which had earnings and book multiples of 14.3 and 2.4, respectively. According to the report, return on equity for the LIFI group has increased from 22 percent to 26 percent over the last year, resulting in the higher book value multiple and a “slight relative overvaluation.”

The authors anticipate a gradual stabilization in the price and book multiples of MFIs as markets mature, growth slows and consolidation spreads. They expect that price variations among countries will increase according to local market and company characteristics. As an example, they cite the so-called crisis in India’s microfinance sector as having virtually no effect on companies or countries in other parts of the world. For investors seeking high returns, they recommend emerging markets like China, Nigeria and Brazil, which are “earlier in their development cycle.”

Governance: Integrating SPM into Microfinance Capacity Building

By Ragini Bajaj Chaudhary, Matt Leonard, Chris Linder and Frances Sinha; published by Imp-Act and MicroSave; 2011; 17 pages; available at: http://spmresourcecentre.net/iprc/assets/File/Governance_guidance_note.pdf

This “guidance note,” which is also available in French and Spanish, discusses the role of boards of directors in ensuring good governance.

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