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MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

MICROCAPITAL BRIEFS I TOP STORIES

Bangladeshi Government Asks Yunus to Step Down

The government of Bangladesh has reportedly asked Nobel laureate Dr Muhammad Yunus to step down as director of microlender Grameen Bank, citing his age of 70 years as five beyond the retirement limit. February 15. 2011

SNS Impact Investing Launched with $400m+ for Microfinance, Agriculture, Water

SNS Asset Management (SNS AM), a Dutch fund manager, has announced the launch of its impact investing unit, SNS Impact Investing, which will focus on investments in microfinance, sustainable agriculture and water. The new unit will consist of a team of 10 people, headed by Harry Hummels, who serves as a board member of SNS AM, and Theo Brouwers, who is a director of SNS AM. Mr Hummels stated that the investing unit will start with USD 400 million to USD 500 million in assets under management with plans to grow as large as USD 750 million by the end of 2011 and USD 1 billion by 2014. The goal is to achieve market rate returns along with social and environmental impact. As of 2009, SNS AM manages the euro-equivalent of USD 39 billion. February 11. 2011

Despite Recent Statement, Reserve Bank of India Proposes Rate Cap

A committee headed by YH Malegam, central board director of the Reserve Bank of India (RBI), recently proposed that microfinance institutions (MFIs) be limited to charging interest rates of no more than 24 percent per year and that loans to a single microborrower not exceed the equivalent of USD 550. This came just a few weeks after RBI Deputy Governor KC Chakrabarty was quoted as saying of microloan interest rates, “In a competitive environment, pricing comes out of competition. I cannot force a person to reduce the price.” The so-called “Malegam Committee” also recommended that borrowers not be allowed to receive more than two loans or be part of more than one joint-liability group and that 75 percent of a lender’s microloans should support income-generating activities. In order to encourage banks to resume lending to MFIs, RBI has temporarily relaxed asset classification rules for such loans, allowing commercial banks to classify them as standard assets, which require lower provisions. January 14, January 26 and February 8. 2011

IFC Syndicates $45m Loan to Banco Industrial do Brasil for SMEs

The International Finance Corporation (IFC), the investment arm of the World Bank Group, recently syndicated a loan equivalent to USD 45 million to Banco Industrial do Brasil (BIB), with the intent of increasing financing for small and medium-sized enterprises. The funds were raised through banks including lead arrangers Banco Itaú Europa, a Portuguese credit institution focusing on developing markets, and Commerzbank, a German commercial bank. The loan comprises three tranches: a three-year loan of USD 15 million from IFC and two-year loans of USD 19 million and the euro-equivalent of USD 10.5 million from the syndicate. BIB reports total assets equivalent to USD 881 million. February 8. 2011

Nigeria Deposit Insurance Corporation Reimburses Customers of Failed MFBs

The Nigeria Deposit Insurance Corporation has begun to repay depositors of the 103 microbanks that were not re-licensed after being closed by the Central Bank of Nigeria in 2010. The repayments, which are capped at the equivalent of USD 1,310 per person, have been completed for depositors in 76 institutions. An anonymous source reported that deposits in the initial 224 banks that were shut down in 2010 totaled roughly USD 13 million, but was unable to say what portion of that figure was owed by those banks that were not permitted to re-open. January 24. 2010

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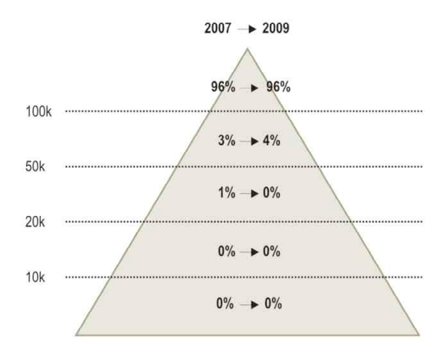
MicroCapital

BANGLADESH

MFI MARKET SHARE TRENDING 2007 TO 2009
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS PAGE 11

MICROCAPITAL BRIEFS

responsAbility Loans $8m in Ecuador, Peru, Jordan, Cambodia

Funds managed by Swiss firm responsAbility Social Investments disbursed loans totaling the following amounts to the following institutions during January: USD 3 million to Banco Solidario of Ecuador, which reports total assets of USD 298 million; the local-currency equivalent of USD 1.8 million to Edpyme Alternativa of Peru, which reports assets of USD 30 million; the local-currency equivalent of USD 1.4 million to Middle East Microcredit Company of Jordan, which reports assets of USD 38 million; USD 1.1 million to Credit MFI of Cambodia, which reports assets of USD 24 million; and USD 1 million to Sathapana Limited of Cambodia, which reports assets of USD 43 million. February 17. 2011

IFC Grants $771k for Electronic Banking in Papua New Guinea

The International Finance Corporation (IFC), the investment arm of the World Bank Group, recently provided Bank South Pacific (BSP) Rural, a subsidiary of commercial bank BSP, a USD 771,000 "performance-based" grant through the Pacific Microfinance Initiative, a joint effort between the Australian government and IFC, to bring electronic banking services to small business owners in Papua New Guinea. It is expected that the grant, which will be disbursed in stages contingent on the meeting of performance targets, will be used to reach 200,000 additional customers with services offered via local shops and post offices, including debit and savings cards that can be used to transfer money to and from rural areas. February 16. 2011

Nigerian Microbanks Ask for Six More Months to Raise Cash

A group of microfinance institutions (MFIs) in Nigeria have entered negotiations with the Central Bank of Nigeria (CBN) to extend by six months their grace period for operating with provisional licenses. In October 2010, CBN issued such licenses to 121 MFIs that had lost their original licenses, but successfully undertook short-term austerity measures including securing new capital and improving loan recovery procedures. The provincial licenses stipulate that the MFIs must recapitalize with the equivalent of USD 131,000 by January 25 or have their licenses finally withdrawn. There is no indication that this deadline has so far been enforced. February 15. 2011

Andhra Pradesh Unduly Protecting Its Own Lending?

Salil Tripathi, director of policy at the British nonprofit Institute for Human Rights and Business, recently argued on a blog operated by the UK's *Guardian* newspaper that recent legislation passed by the government of India's Andhra Pradesh state - although ostensibly intended to protect customers - inappropriately favors state-sponsored self-help groups (SHGs). In addition to prohibiting private lenders from visiting clients on a weekly basis to collect payments, the legislation requires borrowers to attain approval from SHGs before taking on loans from private lenders. February 15. 2011

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USAID FROM THE AMERICAN PEOPLE

Uganda Finance Trust Rolls Out Automated Teller Machines

Uganda Finance Trust Limited, a microfinance bank that was established in 1984, recently unveiled three automated teller machines in an effort to boost client retention. Uganda Finance Trust has 28 branches, total assets of USD 19.7 million, a gross loan portfolio of USD 14.8 million, return on assets of 2.78 percent, return on equity of 13.63 percent and 20,200 active borrowers. February 15. 2011

Nigeria's Niger Delta Ministry Offers Youth Training, Microloans

Nigeria's Niger Delta Ministry recently launched a microfinance scheme that will provide "soft" loans to youth in the Niger Delta region who have recently completed the government's skills training program, which is intended both to enhance employability and prepare participants to set up sustainable businesses. No figures have been released regarding the scale of the program. February 15. 2011

Centre Offers Lessons Learned from Nicaraguan Crunch

The Centre for Financial Inclusion (CFI), a division of US-based nonprofit ACCION International, recently released an overview of lessons that might be taken from the Nicaraguan microfinance downturn, during which aggregate microloan portfolios fell from USD 420 million to USD 170 million. CFI argues that the recession made clear the need for stronger reserve requirements and the potential dangers of political influence and overly rapid expansion. The Centre also reiterates its "6-Point Action Agenda to Recalibrate Microfinance," which calls for stakeholders worldwide to address issues relating to client protection, governance, debt stress, offering savings services in addition to credit, participation in credit bureaux and the creation of "fair-trade" microfinance. *Please see the "Field Notes" section on Page 10 of this newspaper for more on the Nicaraguan downturn.* February 15. 2011

CGAP Explores Over-indebtedness in Blog Series

CGAP (Consultative Group to Assist the Poor), a policy and research center housed at the World Bank, recently launched a weekly series on over-indebtedness on its microfinance blog, incorporating the perspectives of both researchers and practitioners. February 15. 2011

Global Partnerships Loans $3m in Latin America

Global Partnerships, a US-based nonprofit with USD 37 million invested in Latin American microfinance institutions deemed to have a social focus, recently reported to MicroCapital that it loaned USD 1 million each to Fondo de Desarrollo Regional (Fondesurco) of Peru and Fundación para el Desarrollo Microempresarial (D-Miro) of Ecuador. Fondesurco reports total assets of USD 17.1 million, a gross loan portfolio of USD 12.4 million, return on assets of 5.13 percent, return on equity of 27.2 percent and approximately 9,800 borrowers. D-Miro reports total assets of USD 23.6 million, a gross loan portfolio of USD 19.8 million, return on assets of -2.88 percent, return on equity of -11.8 percent and approximately 29,400 borrowers. Global Partnerships also disbursed USD 500,000 each to Peru's Crediflorida, which reports USD 4.88 million in total assets, and Mexico's Fundación Realidad Asociación Civil, which reports total assets of USD 6.83 million. February 14. 2011

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

Central Bank of Nigeria Traces Microfinance Challenges, Strategy

Joe Alegieuno, Director of the Development Finance Department of the Central Bank of Nigeria (CBN), reportedly has stated that in response to challenges such as mission drift, inadequate wholesale funding and the need for more credit bureaux and rating agencies, CBN will continue focusing on educating investors and government institutions on supporting microfinance in a sustainable manner. Femi Fabamwo, Director of the CBN Other Financial Institutions Department, cited "a four-pillar reform policy of sanitization of the sector, capacity-building, restructuring and restoring public confidence" as an antidote to problems including certain microbanks' "flamboyance, fleets of branded cars and high expenditure profile...". January 31 and February 14. 2011

CBN Honors Obioma Liyel-Imoke for EmPOWERing Women

For the second year in a row, the Central Bank of Nigeria has honored Obioma Liyel-Imoke, the first lady of Cross River State and founder of Partnership Opportunities for Women Empowerment Realization (POWER), as the Best Support First Lady for Women Empowerment. In addition to loans, POWER offers education related to agriculture and countering "child abandonment in all its forms." February 14. 2011

Nigerian Association Proposes Criminalization to Recover $6.5m

Chairman Olufemi Babajide of the Lagos chapter of the National Association of Microfinance Banks recently stated that loans past due to microbanks in the region total the equivalent of USD 6.5 million. Mr Babajide argued in favor of establishing special courts for loan defaulters because the current system results in lengthy, expensive trials. He also claimed that, "To my surprise, some of the customers are [defaulting] with criminal intention. There is a need for customers – that are not willing to pay – to be criminalized." February 12. 2011

Incofin Loans $1.5m to TenGer of Mongolia, Owner of XacBank

Incofin, a Belgian cooperative investor in microfinance, recently loaned the local-currency equivalent of USD 1.5 million to TenGer Financial Group, a Mongolian company that controls XacBank, XacLeasing, Horus Nomadic Solutions and TenGer Insurance. The largest of these, XacBank, is a community development and microfinance institution reporting total assets of USD 223 million, a gross loan portfolio of USD 137 million, approximately 73,100 borrowers, return on assets of 0.91 percent and return on equity of 9.29 percent. February 11. 2011

SKS Microfinance Increases Reserves as Profits Fall 38%

SKS Microfinance, a for-profit, publicly traded microfinance institution based in India, recently reported a 38-percent drop in net profit to the equivalent of USD 7.4 million for the last quarter of 2010. SKS also boosted its loan loss provision to USD 21.7 million, up from USD 2.5 million during the last quarter of 2009. USD 5.8 million of the current reserves satisfy guidelines released by the Reserve Bank of India in response to the microfinance turmoil that began in Andhra Pradesh late last year. SKS reported total assets of USD 1.2 billion as of 2010. February 10. 2011

UN: Regulation Hinders Microfinance in Lebanon

Byblos Bank, a Lebanese institution with operations in nine countries, has cited an unspecified report from the United Nations Economic and Social Commission for Western Asia (ESCWA) as arguing that the continued growth of the microfinance sector in Lebanon is hindered by restrictions on microlending by for-profit entities, restrictions on charitable organizations taking deposits and the difficulty of nonprofits accessing loans from the domestic financial sector. ESCWA also reportedly suggests that the government develop credit bureaux to encourage microlending. February 10. 2011

Daiwa to Launch Microfinance Fund

Japan's Daiwa Securities Group is slated to launch a vehicle in February that will invest in microfinance institutions in poor countries. The target size is the yen-equivalent of USD 600 million. February 9. 2011

India's Equitas Microfinance to Cut Portfolio to $187m by March

Equitas Microfinance, a microfinance institution that was established in Chennai in 2007, recently announced plans to reduce its loan portfolio from the equivalent of USD 210 million to USD 187 million by March. Managing Director PN Vasudevan cautioned, "It is only two percent of our loan portfolio, but the customer psyche of not wanting to repay is alarming. Today it has happened in Andhra Pradesh. Tomorrow it may happen elsewhere." February 9. 2011

IIC Approves $15m Loan for Microfinance Institutions in Peru

The Inter-American Investment Corporation, a member of the Inter-American Development Bank Group, recently approved funding of USD 15 million for a program in Peru that is intended to expand lending to individuals for home purchases and improvement and to micro-, small and medium-sized enterprises (MSMEs). Loans from the program will be made via intermediaries including savings and credit agencies; MSME development agencies; and banks that have experience with microenterprises. February 9. 2011

Agora Microfinance to Launch Fund to Invest in Africa, Asia

Agora Microfinance Partners, a London-based outfit that invests equity in microfinance institutions, plans to launch the Agora Microfinance Fund in early 2011. Agora has investments pending in an unspecified microlender in Niger and, pending central bank approval, will take an undisclosed stake in Angkor Mikroheranhvatho Kampuchea Limited, which has approximately 250,000 clients in Cambodia. Agora also intends to launch Agora Microfinance Zambia Limited within months and is in the process of converting Agora Microfinance India Limited into a non-bank financial company. The target fund size is the euro-equivalent of USD 100 million to USD 136 million. February 9. 2011

WWB, Wharton School Host Second Annual Leadership Program

The Women's World Banking (WWB) Center for Microfinance Leadership, an organization that consults for microfinance institutions affiliated with WWB, and the US-based Wharton School of Business recently partnered to host their second annual Advanced Leadership Program, which covered tools for innovation, negotiating, product design, leadership, succession planning, organizational development and the alignment of mission and growth. February 9. 2011

Liberty Mutual Offers Health Microinsurance in Colombia

Liberty Mutual, a US-based insurance provider, recently started offering health insurance policies to poor people in Barranquilla, Columbia. The product costs the equivalent of USD 1.60 per month for coverage of USD 2,000. Premiums are collected via clients' natural gas bills. February 8. 2011

"Simple Poverty Scorecard for Jordan" Released

US-based consultancy Microfinance Risk Management recently released a tool for estimating whether a Jordanian household is likely to fall below the local poverty line. The survey employs 10 indicators that can be easily measured by field workers, such as whether the household owns a car and how many rooms are in the house. The scorecard is used as part of the international Progress out of Poverty Index, a performance management tool of the Grameen Foundation. February 8. 2011

State Bank of India, ICICI Bank Partner with Mobile Providers

Vodafone Essar, an Indian mobile phone service provider with 124 million subscribers, will become a business correspondent of ICICI Bank, offering savings and credit services through customers' handsets. Bharti Airtel has announced a joint venture with the State Bank of India (SBI) to rollout customer service points at Bharti Airtel's 1.5 million affiliated retail locations, allowing 150 million customers to open and manage SBI bank accounts without entering a bank. February 8. 2011

responsAbility Announces Equity Investment in PlaNIS

responsAbility Social Investments AG of Switzerland recently invested an undisclosed sum in PlaNet Finance Investment Services (PlaNIS), a subsidiary of French NGO PlaNet Finance. The unit, renamed PlaNIS responsAbility SAS, is a limited liability company that advises social investment funds in the areas of sourcing, due diligence and risk assessment of microfinance investments. The partnership is intended to reduce transaction costs by utilizing responsAbility's local presence in developing markets. responsAbility manages approximately USD 800 million in total assets. As of 2009, PlaNIS reported monitoring investments totaling approximately USD 165 million. February 8. 2011

AP May Require MFIs to Compensate Families of Suicide Victims

The government of the Indian state of Andhra Pradesh is considering a bill that would require microfinance institutions (MFIs) to pay the equivalent of USD 11,000 to each family from which a borrower is deemed to have committed suicide as a result of his or her debt burden. Manikya Vara Prasada Rao, Minister of Rural Development, supports the effort saying, "Our estimates suggest that about 35 to 40 people committed suicide due to the coercive practices of MFIs." When a microborrower dies, surviving household members are often required to repay the outstanding loans of the decedent. February 8. 2011

Media: Indian MFIs Shortchanged Owner-borrowers

The Microfinance Institutions Network, a trade association of Indian microlenders, has set up a committee to investigate claims that three of its members, SKS Microfinance, SHARE Microfin and Spandana Sphoorty, took advantage of their shareholder-clients. India's *Economic Times* newspaper alleges that as the companies grew and sold more shares, they did not distribute earnings to clients properly. If found guilty, the network could strip the lenders of their membership. There is no word on any related government investigation. February 7. 2011

World Economic Forum Panelists Focus on...Economies (of Scale)

Participants in the World Economic Forum Annual Meeting in Switzerland in January discussed scalability, consumer protection and government regulation of microfinance, as well as the repayment challenges facing microfinance institutions in the Indian state of Andhra Pradesh. Attendees also considered how mobile banking, savings and remittances can improve the economic status of low-income individuals. Panelists argued that the biggest challenge to expanding microfinance is achieving economies of scale. February 7. 2011

Simon McKeon of VisionFund Named "Australian of the Year"

Simon McKeon, a board member of VisionFund International, a nonprofit organization that manages the microfinance institutions of Christian relief organization World Vision International, recently was named "Australian of the Year" by Australian Prime Minister Julia Gillard for his philanthropic endeavors. February 7. 2011

Global Partnerships Loans $1.5m in Bolivia, Honduras

Global Partnerships, a US-based nonprofit with USD 37.7 million invested in 27 Latin American microfinance institutions (MFIs), recently reported to MicroCapital that it disbursed two loans from its Social Investment Fund (SIF) 2010: USD 1 million to Cooperativa Mixta Mujeres Unidas Limitadas (COMIXMUL) of Honduras and USD 500,000 to Fondo Desarrollo Comunal (FONDECO), a Bolivian MFI. SIF 2010 is a five-year debt fund that invests in MFIs that prioritize rural customers and "microfinance plus" programs such as health services and business education. For 2009, FONDECO reports assets of USD 12.5 million, a gross loan portfolio of USD 10 million, 11,500 borrowers, return on assets of 2.31 percent and return on equity of 8.31 percent. As of 2008, COMIXMUL reports total assets equivalent to USD 15.9 million, a gross loan portfolio of USD 12.5 million, return on equity of 4.7 percent and approximately 11,000 borrowers. February 5. 2011

Kenyan Bankers Look to Build Credit Bureau for All Lenders

The Kenya Bankers Association is drafting a proposal to establish a Kenya Credit Providers Association that would create a national database of credit information for all lenders. Current law allows credit reference bureaux to share borrower data only with commercial banks. While commercial lenders are reportedly willing to allow microlenders to participate in the existing bureaux, the required legal changes would probably take years to implement. February 4. 2011

Microinsurance Network Reviews Tech, Social Performance Work

The Microinsurance Network, a member-based platform of 60 organizations, has released an overview of its 2010 activities, which include the development of social performance indicators and the launch of the Microinsurance Technology Inventory. February 4. 2011

EBRD Loans $9m to IMPULS-Leasing Romania

The European Bank for Reconstruction and Development (EBRD), a development finance institution headquartered in London, recently loaned the euro-equivalent of USD 9.7 million to IMPULS-Leasing Romania IFN, a Romanian vehicle and equipment leasing company, under the European Union/EBRD SME Finance Facility. According to Claudia Pendred, EBRD Director for Romania, "This is the first leasing project targeting rural SMEs [small and medium-sized enterprises] in Romania." February 4. 2011

MFTransparency Launches Pricing Data Report on India

MFTransparency, a US-based nonprofit that aims to provide information on microcredit products and pricing in a clear and uniform fashion, recently released pricing data from 82 microfinance institutions in India, which reportedly account for 77 percent of active borrowers in the country. MFTransparency will convene a meeting in Mumbai on February 25 to discuss the data. February 4. 2011

Mission Markets Investment Platform Adds Microfinance Listings

Mission Markets, a US-based outfit that operates two online platforms connecting investors with socially oriented businesses, recently announced the posting of its first microfinance investment. The offering is to acquire assets from Envest Microfinance, a cooperative based in the US state of Wisconsin that reported USD 500,000 invested in Latin American microfinance institutions as of 2008. Launched in November 2010, the "Impact Investment Platform" has listed 16 offerings to date, with the first two trades closing in January. So far, about 100 investors have signed up for the service, which collects fees from listing organizations only upon the consummation of deals. February 3. 2011

Russian Microfinance Center to Boost Business Training

Citi Foundation, the charitable arm of global financial services provider Citigroup, has partnered with the Russian Microfinance Center, a professional association of microfinance operators, to facilitate business development for start-up entrepreneurs in Russia. By the end of 2011, staff of microfinance organizations in five regions of the country will receive training to assist 900 emerging entrepreneurs in managing their finances. February 3. 2011

ADB, Japan Grant $2m for Bangladeshi Remittances, Financial Ed

The Asian Development Bank (ADB) has approved a USD 2 million grant from the Japan Fund for Poverty Reduction, an investment fund that is administered by ADB and funded by the government of Japan, to build a technology platform that will link microfinance institutions (MFIs) and banks to bring formal remittance services to approximately 20,000 households in Bangladesh. The grant will also fund financial literacy programs with the goal of helping each household save or invest USD 300 annually. The government of Bangladesh and several local banks and MFIs will co-fund USD 400,000 of the project, which is expected to be completed in 2013. February 3. 2011

EBRD Loans $6m to Mol Bulak, Kompanion of Kyrgyz Republic

The European Bank for Reconstruction and Development, a development finance institution headquartered in London, has agreed to provide local-currency loans equivalent to USD 3 million each to Mol Bulak Finance and Kompanion Financial Group to further the Kyrgyz microlenders' support of small and medium-sized enterprises in rural areas. Mol Bulak reports USD 14.8 million in assets, a gross loan portfolio of USD 10.9 million and 28,000 borrowers. Kompanion Financial Group, which plans to offer deposit services beginning in early 2012, reports assets of USD 48.2 million, a gross loan portfolio of USD 38.9 million and 117,000 borrowers. February 1 and February 3. 2011

Calvert Foundation Appoints Lisa Hall as New Head

Calvert Foundation, a US-based organization that invests in microfinance and community development projects in the US and around the world, has promoted Chief Lending Officer Lisa Hall to succeed Shari Berenbach as its President and CEO. February 1. 2011

Islamic Microfinance Network Is Born

The Islamic Microfinance Network has been launched in Pakistan with the aim of uniting Islamic microfinance institutions worldwide. The network is also looking to establish regional offices in Ghana, Mauritius and the Middle East. Planned activities include coordinating the efforts of members to alleviate poverty, establishing best practices in Islamic microfinance and developing guidelines for adopting Shariah-compliant practices. February 1. 2011

Social Impact Fund "responsAbility Ventures I" Launches

responsAbility Social Investments AG, an investment company based in Switzerland, recently launched responsAbility Ventures I, a venture capital fund that invests in companies that provide services for poor people in the areas of energy, agriculture and technology. The fund was developed in collaboration with Helvetas, a development organization in Switzerland, and the DOEN Foundation, a Dutch development fund. Through its first close, the fund has raised USD 15 million, plus USD 2.3 million for a related technical assistance facility. February 1. 2011

Citi, Pakistan Microfinance Network Support MFIs Post-flood

The Citi Foundation, an affiliate of global financial services provider Citigroup, has partnered with the Pakistan Microfinance Network, an association of 20 microfinance providers, to aid the microfinance industry in its recovery from the floods of 2010. The effort is part of the second phase of Citi's flood relief, which is aimed at providing poor people with food, medical assistance and financial services. The microfinance program comprises workshops to educate micro-entrepreneurs on managing disaster risk and distribution of a publication to microfinance institutions that outlines best practices for disaster management in developing countries. January 31. 2011

CAF Boosts ProCredit Ecuador Credit Line to $12m

Corporacion Andina de Fomento, a development finance organization based in Venezuela, recently increased its credit line to Banco ProCredit Ecuador, a bank that provides financial services to micro-, small and medium-sized enterprises, from USD 8 million to USD 12 million. Banco ProCredit Ecuador is a member of Germany's ProCredit Holding Group, which operates 21 banks in Eastern Europe, Latin America and Africa. In 2009, Banco ProCredit Ecuador reported total assets of USD 330 million, a gross loan portfolio of USD 235 million, return on assets of 1.50 percent, return on equity of 12.10 percent and 54,800 active borrowers. ProCredit Holding reports total assets equivalent to USD 6 billion. January 28. 2011

Indian Bank Receives Skoch Financial Inclusion Award

India's Skoch Consultancy Services has presented Indian Bank, a bank owned by the government of India, with the Skoch Financial Inclusion Award 2011 for its innovation in serving migrants by performing "know your customer" compliance via branches in the migrants' home regions. January 28. 2011

Number of MFIs in Georgia Grows to 47

The National Bank of Georgia reports that the number of microlenders in the country grew from 38 to 47 during 2010. January 28. 2011

Microfinance Development Fund Gains Support in Nigeria

Nigeria's President Goodluck Jonathan recently announced at the country's fifth Annual Microfinance Conference and Entrepreneurial Award Ceremony that the federal government would offer unspecified support to the Central Bank of Nigeria (CBN) in its plan to establish a Microfinance Development Fund. The target size of the fund has not been disclosed. President Jonathan also encouraged microfinance institutions to work with CBN to lower interest rates as well as to prioritize the education of both staff and clients. January 27. 2011

Indian Raters Predict RBI Proposal Will Consolidate Industry

Indian rating agencies ICRA and Credit Rating and Information Services of India have reportedly argued that recent proposals by the Reserve Bank of India's "Malegam Committee" to regulate microfinance will result in slower growth and smaller profits for microlenders, thus leading to consolidation in the sector. *Please see Page 1 of this newspaper for more on the report of the Malegam Committee.* January 27. 2011

IFC Invests $35m in Equity of India's Bandhan

The International Finance Corporation, the investment arm of the World Bank Group, has agreed to make an equity investment equivalent to USD 35.1 million to fund the geographic expansion of Bandhan Financial Services, a microfinance institution in India. Bandhan also aims to add to its product portfolio and improve operating practices. Bandhan reports total assets of USD 424 million, a gross loan portfolio of USD 333 million, 2.3 million active borrowers, return on equity of 38.2 percent and return on assets of 3.52 percent. January 27. 2011

Bankers Without Borders Provides $150k for Volunteer Programs

Bankers Without Borders, an initiative of US-based Grameen Foundation, recently announced a second round of funding for its Alliance Program, which is intended to engage business professionals as a resource for microfinance and other development initiatives. Organizations may apply through February to receive up to USD 30,000 to establish and expand the program within their regions. For the current round of funding, which totals USD 150,000, efforts in sub-Saharan Africa will receive preference. January 26. 2011

Andhra Pradesh Microloans Take 2 Months to Process

Since October 2010, when the Indian state of Andhra Pradesh began requiring that microfinance institutions get approval from district officials before disbursing loans, loan processing times have reportedly stretched to two months. CEO MR Rao of microlender SKS Microfinance Limited reports that SKS submitted 162 loan applications to district officials on November 27, 2010, and that 46 of those were approved by late January. SKS has since submitted 11,000 such applications. January 26. 2011

AccessBank of Azerbaijan Reports Deposits Up 86%

AccessBank, a commercial bank that offers financial services to micro- and small enterprises as well as to low- and middle-income households in Azerbaijan, recently reported that its deposit portfolio increased by 86 percent during 2010 to the equivalent of USD 150 million. The bank's loan portfolio also increased 15 percent to USD 340 million, and total assets increased 23 percent to USD 460 million. During this time, the bank expanded its customer base 20 percent to 120,000 customers while opening five new branches in three regions. The bank is held by four development finance institutions and two German microfinance organizations. January 26. 2011

Rahman, Fernando Differ on Efficacy of Microfinance

In *The Daily Star*, a Bangladeshi newspaper, Habibur Rahman of Bangladeshi microlender ASA argues that microfinance reduces discrimination by giving poor people access to financial services and that microloans allow them to engage in income-generating activities to escape poverty. In New York's *Forbes* magazine, Jude Fernando disputes this, saying that nonpayment of microloans, which are usually promoted as collateral-free, sometimes is met with aggressive collections practices that include taking control of borrowers' assets, as well as taking "advantage of the inherent inequality of gender roles to apply peer-group pressure" to women who make significant sacrifices to avoid shame. January 25. 2011

USAID Guarantees $4.6m BNP Paribas Loan to Egypt's Lead

The Egyptian office of the US Agency for International Development (AID) and French bank BNP Paribas recently agreed to a deal whereby BNP Paribas will loan the local-currency equivalent of USD 4.65 million to The Lead Foundation, an Egyptian microfinance NGO that was founded in part by USAID. USAID will guarantee 50 percent of the loan to Lead, which reports a gross loan portfolio of USD 28 million and 170,000 active borrowers. January 25. 2011

Old Mutual South Africa Distributes Insurance via Shoprite Stores

Old Mutual Life Assurance of South Africa, in partnership with local retailer Shoprite, has launched a funeral insurance plan aimed at poor people. "Family Funeral Cover" starts at the equivalent of USD 1.98 for one-year coverage of USD 71. Accidental death is covered for the full term, with death resulting from natural causes covered for the second half of the year to discourage purchases for the terminally ill. The product, which is being rolled out at 450 Shoprite stores, builds on the firm's accident offering, which offers coverage of USD 710 for 60 days for a premium of USD 1.41. January 25. 2011

India's NABARD Looking to Invest in Venture Capital Funds

India's National Bank for Agriculture and Rural Development, which regulates and promotes microfinance activities in rural areas, recently announced that it is looking to participate in venture capital funds that invest mostly in agricultural and rural activities. January 24. 2011

Compartamos Banco Looks to Expand Beyond Mexico
Executive Vice President Carlos Danel of Mexican microfinance bank Compartamos Banco reportedly has said that the bank is looking to expand into other countries in Latin America. Compartamos Chairman Alvaro Rodriguez was quoted as saying that, while no specific plans have been finalized, the bank's capitalization level of approximately 40 percent gives it "many financing options." The news is consistent with the bank's transfer of shares to a holding company that was announced in the December 2010 issue of this newspaper. January 24. 2011

MFTransparency Expands to Togo, Benin
MFTransparency, a US-based nonprofit; the Association of Micro Finance Institutions in Togo; the Association of Microfinance Institutions of Benin; and the Association of Decentralized Financial Systems of Benin are partnering to expand MFTransparency's Transparent Pricing Initiative to Togo and Benin with the aim of promoting consumer protection through the publication of microloan pricing data. The initiative was launched in Senegal and Burkina Faso in 2010 as part of an effort to foster pricing transparency throughout the West African Economic Monetary Union. January 20. 2011

Kenya's Remu Acquires Deposit License as Start-up
The Central Bank of Kenya has granted a license to Remu Deposit Taking Microfinance Limited that allows it to accept deposits from the public. Remu is reportedly the fifth institution to be licensed under the 2008 act enabling microlenders to accept deposits, but the first to start operations without an existing clientele and loan book. Remu aims to focus on lending to small and medium-sized enterprises for capital investments. January 20. 2011

Pakistani Microinsurance Providers Draft Regulation
The Securities and Exchange Commission of Pakistan and the US-based Center for International Private Enterprise recently convened a group of microinsurance stakeholders to look into removing barriers to the expansion of microinsurance in Pakistan such as high claim rates against existing plans and high administrative costs. While the resulting draft rules are not available for review, the document is said to suggest the increased use of technology, a reconsideration of administrative fees and bringing in more healthcare providers. January 19. 2011

Bankers Association Opens Credit Bureau to Philippine MFIs
The Bankers Association of the Philippines - Credit Bureau Incorporated (BAP-CB), a nonprofit that manages data on 3.8 million accounts, recently offered rural lenders in the Philippines access to its data. Although the government of the Philippines mandated in 2008 that a central agency consolidate credit information, such a system has not yet been implemented. As an incentive to rural banks, BAP-CB cut the fee for each inquiry by half to the equivalent of USD 0.13 and waived the upfront subscription fee. As of January, 20 rural banks have joined the bureau. January 19. 2011

Creation Investments Fund I Makes Final Close at $32m
Creation Investments Social Ventures Fund I, a private equity microfinance fund, recently announced that it made its final close, with 74 institutional investors committing a total of USD 31.8 million to the fund, which makes equity investments in lenders in Latin America and Europe that are deemed to be committed to alleviating poverty. The fund is managed by Creation Investments Capital Management of Chicago, Illinois. The fund targets microlenders and lenders to small and medium-sized enterprises that it believes have high growth potential and those that are transitioning out of ownership by larger organizations into independent institutions. January 19. 2011

Digicel, ScotiaBank Win $2.5m Prize for Mobile Money in Haiti
The Bill and Melinda Gates Foundation, in collaboration with the US Agency for International Development, has announced the award of a "First to Market" prize of USD 2.5 million to Jamaica-based mobile operator Digicel and its Canadian partner bank ScotiaBank as part of a competition created by the US-funded Haiti Integrated Finance for Value Chains and Enterprises. The goal of the competition is to quickly implement services that give poor people access to mobile financial services. January 18. 2011

India's SKS Microfinance Cuts Interest Rates
SKS Microfinance, a for-profit microfinance institution in India, has announced a universal cut in its "effective" microloan interest rates from 26.7 percent to 24.6 percent per year. In addition, SKS will eliminate various fees, which will result in SKS no longer insuring against funeral expenses and unpaid loans in the event of the death of the borrower. January 17. 2011

IFC Mulls $10m Equity Investment in India's SEWA Bank
The International Finance Corporation (IFC), the investment arm of the World Bank Group, is looking into investing USD 10 million in Shri Mahila SEWA Sahakari Bank Limited, an affiliate of India's Self Employed Women's Association, to help it enter new regions to grow its membership of 1.3 million. Additionally, IFC's banking and advisory team will assist the bank with risk management, internal control, product development and asset liability management. For 2009, SEWA Bank reports total assets of USD 31.7 million, a gross loan portfolio of USD 10.4 million, return on assets of 0.52 percent and return on equity of 3.06 percent. January 14. 2011

Indian Banks May Reschedule...If MFIs Offer Same to Clients
An unspecified group of Indian banks that have loans outstanding to microfinance institutions (MFIs) appears to have reached an agreement with the MFIs regarding their requests to reschedule their loan payments. In December 2010, following a standstill in repayments by microborrowers in the state of Andhra Pradesh, several MFIs lobbied to postpone by approximately six months their repayments to banks. A group of Indian financial institutions subsequently submitted a proposal for the loan restructuring to the Reserve Bank of India, which agreed to the rescheduling of loans given to MFIs only if the MFIs agree to reschedule the loans they disbursed to microborrowers. Recently, several MFIs threatened legal action against India's Yes Bank for recalling loans made to the MFIs that total over USD 22 million. It is unclear whether the Yes Bank recalls are affected by the new agreement. January 14. 2011

Politicians Suggest Microborrowers in West Bengal Not Repay
At the urging of local politicians, microfinance borrowers in Bolpur, a town in the Indian state of West Bengal, reportedly have stopped paying back their loans to microfinance institutions in the hopes that their debts will be waived. January 14. 2011

IFC Invests $20m in Banco Triangulo for MSMEs in Brazil
International Finance Corporation, the private sector arm of the World Bank Group, is making a USD 20 million equity investment in newly issued common shares of Banco Triangulo SA (Tribanco), which is owned by Brazilian supply-chain conglomerate Sistema Integrado Martins. Tribanco, which serves micro-, small and medium-sized retail outlets, medium-sized manufacturers and low-income consumers in Brazil, reports the equivalent of USD 1.07 billion in total assets. January 13. 2011

FIELD NOTES

Mission IS-possible: Lessons After a Shake-out in Nicaragua

"Mission drift" is no longer a squishy term uttered only by slightly bohemian supporters of microfinance. Mission drift is a business risk. One interesting example is Nicaragua (yes, again), where the microcredit market has contracted by about half from 2008 to 2010, according to early estimates. Interestingly, some institutions with a strong focus on their mission are surviving, while those who lost sight of their mission in favor of pleasing shareholders have been through the wringer. Mission isn't the only reason, but there is something to be said about the strategic advantages of prioritizing your clients' welfare over that of private owners.

In 2007, when microfinance investment fund assets under management grew 80 percent worldwide, Nicaraguan microfinance institutions (MFIs) had easy access to capital. Yet having grown 87 percent from 2005 to 2007, the MFIs were strained. According to Julio Flores, Director of Nicaraguan MFI Fondo de Desarrollo Local (FDL), "it took restraint for some of us not to borrow as much as was being offered." Founded by Jesuits, FDL has a reputation for mission-led policies and programs. "Restraint" is a relative word, of course: FDL's portfolio grew 21 percent during 2007. However, larger, regulated institutions like Banex and ProCredit grew 42 percent and 37 percent, respectively, taking market share and fueling competition. Loan sizes rose, clients borrowed from multiple institutions and overindebtedness ensued.

When the world financial crisis hit in 2008, a mix of external factors (slowing demand, global credit-tightening, food and fuel price hikes, political pressures and declines in remittances) and internal factors (weak credit practices, poor risk management and fragile governance) unraveled the industry. Banex, a favorite of investors, subsequently failed, while the market leader, ProCredit, was recapitalized, abandoned the bottom segment of the microfinance market and lost almost 75 percent of its clients in two years. Some unregulated institutions also experienced fast growth and weak governance, resulting in a messy cocktail of severe contractions, takeovers, scandals and debt workouts.

The market is still adjusting after more than two years. According to Nicaraguan MFI network ASOMIF, the industry-wide, 30-day portfolio-at-risk ratio has fallen from its peak of 25 percent to 17 percent as of December 2010. Bad borrowers have been skimmed out of the market, but so have many good borrowers. Mr Flores laments that those who have suffered most from asymmetries in the market are the poorest and those in the most remote areas.

Some MFIs, however, are back to pre-crisis credit quality. Those institutions with commitments to their missions and good governance have shown that this mix can be a recipe for survival. One example is Pro Mujer Nicaragua, which was once seen as a noble yet tiny player. It now serves 26,000 clients, more than the former behemoth ProCredit. Another is FDL, which has held on to almost 70 percent of its clients with nearly 60,000 in total.

Last week, CGAP (Consultative Group to Assist the Poor) issued its third annual Banana Skins survey of the industry's perception of risks in the microfinance sector, noting that credit risk is the number-one concern. Certainly it remains a central concern in Nicaragua. Mission drift is listed by CGAP at number 9. Yet the Nicaraguan example suggests that the effects of a boom-bust cycle can be cushioned far more by well-managed, mission-focused MFIs than by regulators or even private shareholders.

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.

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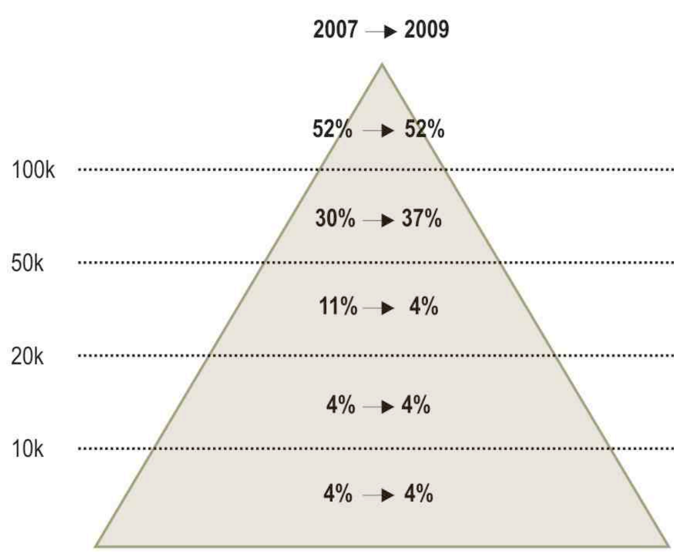
MICROCAPITAL MARKET INDICATORS I BANGLADESH

27 MFIs REPORTING[1]

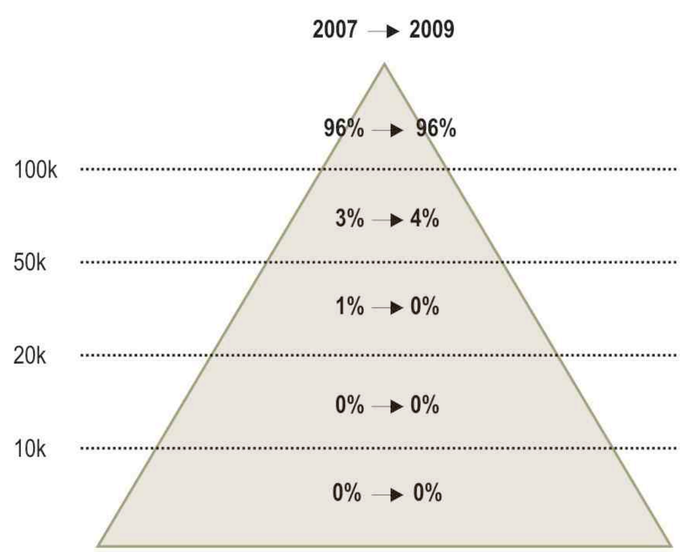
TOP 10 MICROFINANCE INSTITUTIONS (MFIs) BY GROWTH IN GROSS LOAN PORTFOLIO: CHANGE IN USD

MFI NAME	AVERAGE ANNUAL USD INCREASE	AVERAGE ANNUAL % INCREASE	2007	2009
Grameen Bank	142,682,661	24	532,024,512	817,389,833
Bangladesh Rural Advancement Committee	53,805,459	10	528,787,168	636,398,086
Association for Social Advancement	47,300,370	12	361,698,112	456,298,852
BURO Bangladesh, formerly BURO Tangail	15,150,594	44	28,460,338	58,761,526
Jagorani Chakra Foundation	9,901,102	39	21,062,696	40,864,900
Thengamara Mohila Sabuj Sangha	9,040,787	19	42,843,100	60,924,675
Shakti Foundation for Disadvantaged Women	8,900,738	44	16,610,203	34,411,679
United Development Initiatives for Programmed Actions	7,239,726	40	14,968,366	29,447,817
Society for Social Services	5,935,375	20	27,769,746	39,640,497
Christian Service Society	3,809,106	60	4,870,356	12,488,569

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.

UPCOMING EVENTS

Mobile Financial Inclusion 2011
February 23 - February 24, 2011, Dubai, UAE
This conference will focus on building partnerships with mobile network operators, regulators and technologists, with coverage of regulatory best practices, using mobile phone records as proxies for credit history and bank-led models. The standard price is USD 599 excluding add-on workshops. A rate of USD 399 is available to nonprofit organizations. More details are available from Liz McAleer at +44 (0) 203 141 8700, +1 212 537 5898 or info@hansonwade.com; or you may visit http://hansonwade.com/events/mobile-finance/index.shtml.

AITEC Banking & Mobile Money COMESA
March 2 - March 3, 2011, Nairobi, Kenya
The exhibition will showcase new technologies in mobile banking including developments in payment technologies, best practices in information technology project deployment and trends in customer service delivery. The fee to attend is USD 590, and more details are available via http://www.aitecafrica.com/event/view/67, +44 0 1480 880774 or info@aitecafrica.com.

Payment Trends China
March 9 - March 11, 2011, Shanghai, China
This event will cover mobile payments, bank cards, treasury management, trade finance, avoiding fraud and various case studies. The full registration fee is USD 2,895, with discounts available for two-day passes and for groups. More details are available via +86 21 3360 0066, ptc@atunicorn.com or http://www.paymenttrends.com/.

Victoria Microcredit Conference
March 4 - March 5, 2011, Victoria, Canada
This conference will address contrasts in microfinance such as charity versus business opportunity and developing world versus developed world. Also offered are a presentation by Phil Smith, author of *A Billion Bootstraps*, and workshops on performance measures and sustainability. The fee to attend is USD 80 for the full conference or USD 20 for the Phil Smith talk only. More information is available via Jenn Raappana at microcredit2011@gmail.com, +1 250 893 2204 or http://www.microcredit2011.org/.

Take Action! Impact Investing Conference Series
March 14 - March 16, 2011, San Francisco, USA
This event will argue the business case for investments that provide financial return in addition to social and environmental impact. Topics include opportunities for institutional investors that are ready to scale-up. Contact and pricing information is not available, but may be requested via http://www.takeactionforimpact.com/.

ALFI Microfinance Conference
March 17, 2011, Luxembourg
This event will cover topics such as microfinance as a development tool, current threats and opportunities, social performance of the microfinance investment vehicle and transparency. The fee to attend is EUR 420 or EUR 310 for members of the Association of the Luxembourg Fund Industry. Additional information is available via Siobhan Roche at events@alfi.lu, +352 22 30 26 1 or http://www.alfi.lu/conferences-training/conferences/alfi-microfinance-conference-0.

Microfinance: A Development Tool or a Profit-Making Device?
March 21, 2011, Brussels, Belgium
The event will cover the effects of the global economic downturn on the microfinance sector, the impact of the growth of microfinance on economic development, social performance, delivery methods and the role of technical assistance. The registration fee is EUR 300, with discounts available for students, nonprofit staff and all registrations paid by March 10. More details are available from Marlene Biard at conferences@planetfinance.org or +33 (0) 1 49 21 26 26, or you may visit http://www.planetfinanceconferences.org/.

MMT Americas 2011
March 21 - March 24, 2011, Sao Paolo, Brazil
The primary, two-day portion of this conference covers mobile money trends in Latin America, analyzing business models for mobile banking and case studies on launching mobile banking in Colombia and Peru. The fee to attend is USD 1,699 plus USD 600 each for the pre- and post-conference sessions. Group discounts are available. More details can be had via http://www.mobile-money-transfer.com/americas, mmtamericas@clarionevents.com or +44 (0)20 7067 1831.

Second Annual MicroInsurance Summit Latin America
March 28 - March 31, 2011, Miami, USA
The theme of the conference is penetrating the mass market in microinsurance through innovation in product design and efforts such as cross-selling and up-selling. The standard fee to attend is USD 1,999, with a rate of USD 1,499 offered to microfinance institutions. Add-on workshops are also available. For additional information, you may contact Nicola Freeman at nicola.freeman@hansonwade.com or +44 7976 953 219, or you may visit http://microinsurance-latin.com/.

Microfinance Investment Summit Africa
April 5 - April 7, 2011, Johannesburg, South Africa
This conference will cover topics such as branchless banking, microinsurance, small and medium-sized enterprise banking opportunities, raising the visibility of new institutions and solutions to cross-jurisdictional legislation. The fee to attend is USD 1,595, with discounts for representatives of microfinance institutions and microfinance investment vehicles. Additional information is available via enquiries@c5-online.com, +44 (0) 20 7878 6886 or http://www.c5-online.com/MFAfrica.htm.

M-Commerce World Summit
April 6 - April 7, 2011, Singapore
The event will cover topics including regulatory impacts, profitable business models, opportunities and challenges facing banks offering mobile financial services and various case studies. Additional information may be had via enquiry@symphonyglobal.com, +65 6221 8119 or http://www.symphonyglobal.com/index.php/event/page/m-commerce_2011/.

MORE DETAILS COMING SOON ON…

HBS-ACCION Program on Strategic Leadership for Microfinance
April 25 - April 30, 2011, Boston, USA

Fourth Annual Global Microfinance Investment Congress
May 16 - May 17, 2011, New York, USA

TBLI Conference Asia 2011
May 26 - May 27, 2011, Tokyo, Japan

PAPER WRAP-UPS

Microfinance Market Report for Latin America and Caribbean 2010

Published by the Microfinance Information Exchange and Red Centroamericana de Microfinanzas, January 2011, 20 pages, available at: http://www.themix.org/publications/mix-microfinance-world/2010/11/benchmarking-microfinance-central-america-2010

Prepared in the context of the global economic downturn that began in 2008, this report covers the performance of microfinance institutions (MFIs) in the Latin American and Caribbean region in 2009. The report also analyzes trends in the region, compares current MFI performance to previous years and discusses implications for the future. Data from the Microfinance Information Exchange's MIX Market database, a platform that collates financial information from approximately 1,800 MFIs across the world, is used for the analysis, which is presented for the region as a whole, as well as by country.

The report examines the issue of "cross-indebtedness," a situation that occurs when a borrower has active loans with more than one MFI. MFIs in Ecuador are chosen for the purpose of this case study to understand the extent of cross-indebtedness and to determine its relationship with the risk profile of the MFI in question.

Despite regional portfolio growth of 24 percent (compared to 13.6 percent in 2008), some Central American countries did not fare well, owing to isolated events that affected individual countries including Nicaragua, Honduras and El Salvador.

Rural Finance in Poverty-Stricken Areas in the People's Republic of China

By Zhang Xuechun, Xu Zhong, Shen Minggao, and Cheng Enjiang; published by the Asian Development Bank; 2010; 211 pages; available at: http://www.adb.org/Documents/Books/Rural-Finance-PRC/rural-finance-prc.pdf

This book suggests reforms to China's rural finance industry, including its microfinance industry, that the authors argue would help small businesses and alleviate poverty. The lack of institutional reform in the rural finance sector has reportedly exacerbated the economic gap between urban and rural areas in China.

The authors recommend repealing laws that hinder the establishment of a competitive financial market and suggest new laws are needed to support microcredit institutions, financial cooperatives and informal finance. For example, local government agencies are required by law to appoint the managers of NGOs, including microfinance institutions (MFIs). These individuals, who are paid by the state, have no incentive to improve MFIs since they can simply return to their previous government positions if the MFIs fail.

Other barriers to the success of MFIs in China include:

- Nongovernmental MFIs must register as social groups or "non-enterprises," which cannot transform into financial institutions without local government involvement;
- MFIs must keep interest rates within four times that of China's benchmark interest rate, which stands at 5.81 percent; and
- The lack of rating agencies reporting on the microfinance industry keep transparency and investment low.

Is There a Business Case for Small Savers?

By Glenn D Westley and Xavier Martin Palomas, published by CGAP (Consultative Group to Assist the Poor) as Occasional Paper 18, September 2010, 23 pages, available at: http://www.cgap.org/p/site/c/template.rc/1.9.47356/

As observers of microfinance have focused in the past largely on credit, discussion of the sustainability of microfinance institutions (MFIs) has often centered on the reduction of costs associated with loan recovery and charging high lending rates. Recently, more MFIs have begun to diversify by offering services such as savings and insurance. In this study, the authors use data collected in 2008 to examine whether small savings accounts are profitable and what impact they may have on the sustainability of MFIs.

The study examines two MFIs, Asociacion Dominicana para el Desarrollo de la Mujer (ADOPEM), an MFI that was founded in the Dominican Republic in 1982, and Centenary Rural Development Bank Limited, a Ugandan MFI that was established in 1983. The authors define small savers as "the half of all savings clients with the smallest deposit balance." The balance for ADOPEM clients was calculated as the average daily balance over the 366 days in 2008, and the balance for Centenary Bank clients was defined as the balance on the last day of 2008. Marginal cost analysis is used to attempt to measure the costs associated with small savings accounts while eliminating fixed and quasi-fixed costs such as compensation for personnel, office rent, utilities and maintenance.

Dr Westley and Mr Palomas identify five sources of small-saver profits, which they call the five "Pathways to Profitability": (1) Loans, which account for the majority of profits from all services provided to small savers at both MFIs; (2) other cross-sold products such as insurance; (3) savings account fees; (4) technology such as automated teller machines, which can help MFIs attract and retain clients, leading to an increase in the profitability of Pathways One through Three; and (5) higher rates charged on smaller loans demanded by small savers.

The average size of small savers' loans at ADOPEM was 61 percent of that of all borrowers, and the average loan balance of small savers at Centenary was 74 percent of that of all borrowers. The authors assert that these loan sizes of small savers are small enough to justify the higher loan rates described in Pathway Five.

Although the annual operating cost for deposit services was between 59 percent and 241 percent of the deposit balance of small savers, these costs were more than offset by the profits generated by loans, cross-sales of other products and fee revenue. According to this methodology, small-saver accounts generated a profit of over 400 percent at Centenary Bank and over 1,000 percent at ADOPEM in 2008.

The authors also identify a sixth potential Pathway to Profitability. Using data from 2006 to 2008, they found that the average size of small-saver savings accounts and loans grew quickly. During this time period, the size of ADOPEM's small savings accounts grew by 105 percent while loan sizes grew by 83 percent. Dr Westley and Mr Palomas maintain that this in itself could make previously unprofitable small-saver accounts profitable in future years.

Risky Business: An Empirical Analysis of Foreign Exchange Risk Exposure in Microfinance

By Julie Abrams, published by MFX Solutions Incorporated, January 2011, 36 pages, available at: http://www.mfxsolutions.com/wp-content/uploads/2010/10/MFX_Risky-Business_2011.pdf

This study analyzes financial data from the year 2008 from approximately 300 microfinance institutions (MFIs) to estimate that the industry's total foreign-currency risk exposure is at least USD 6 billion, with more than half of MFIs holding more risk on their books than the authors consider secure. Approximately 40 percent of MFIs reportedly disburse loans in a currency other than that used locally by borrowers. Funded by the Netherlands Development Finance Company (FMO), the paper also covers the effects of currency movements on MFIs and offers recommendations for mitigating foreign exchange risk.

Advancing Savings Services: Resource Guide for Funders (Draft)

By Jasmina Glisovic, Mayada El-Zoghbi and Sarah Forster; published by CGAP (Consultative Group to Assist the Poor); October 2010; 56 pages; available at: http://www.cgap.org/p/site/c/template.rc/1.9.48183/

This draft technical guide is intended to help donors and investors understand savings mobilization as it relates to microfinance. While microfinance institutions have traditionally focused on lending, more are now offering additional product lines such as savings. The authors argue that in order to expand savings, investors should focus on the initial investments needed to scale-up savings services and train personnel, as well as help in building the capacity of regulatory and supervisory bodies. The guide also advises funders on how to evaluate their own organization's capacity to support savings mobilization and how to use different funding instruments to achieve their goals.

Microfinance Rating Market Review 2010

Published by the Rating Initiative, November 2010, 38 pages, available at: http://www.ratinginitiative.org/fileadmin/media/publications/Rating_Market/RI_Market_Review_2010.pdf

This document, which updates and builds on previous similar reports released between 2006 and 2008, provides an overview of the global and regional microfinance ratings sector between 2008 and 2009 by collating information provided by participating microfinance institutions (MFIs) and rating agencies.

The ratings included in the review are categorized by type, financial versus social; funding source, MFI-funded versus subsidized; country; region; MFI; and rating agency. The review also includes a qualitative assessment to highlight both the motivations and the difficulties that MFIs and rating agencies face during the ratings process.

The data for the qualitative analysis were collected via online questionnaires and telephone interviews with MFIs and ratings agencies.

The Rating Initiative was launched by Appui au Développement Autonome based in Luxembourg, in partnership with the government of Luxembourg, the Microfinance Initiative Liechtenstein, the Swiss Agency for Development and Cooperation, Oxfam Novib Fund, Oesterreichische Entwicklungsbank, the Interchurch Organization for Development Co-operation, the Principality of Monaco, BlueOrchard, responsAbility Social Investments AG, the African Microfinance Transparency Forum and the Social Performance Task Force.

Pocket Guide to the Microfinance Financial Reporting Standards: Measuring Financial Performance of Microfinance Institutions

Published by Small Enterprise Education and Promotion (SEEP) Network, October 2010, 20 pages, available at: http://www.seepnetwork.org/PDFfiles/SEEP_MFRS-Pocket-Guide_ENG_FINAL_web.pdf

The standards for microfinance institution (MFI) reporting that appear in this document are intended to help stake-holders evaluate MFI performance based on a universal set of criteria developed in collaboration with NGOs, rating agencies, central banks and microfinance associations.

This successor to the 2005 "SEEP Framework," also explains how to use and interpret financial reporting ratios. It has been translated into French and Spanish, with translations into Russian, Arabic, Mandarin and Portuguese planned for 2011.

Health Care Utilization in Rural Senegal: The Facts Before the Extension of Health Insurance to Farmers

By Aurélia Lépine and Alexis Le Nestour, published by MicroInsurance Innovation Facility, undated, 20 pages, available at: http://www.ilo.org/public/english/employment/mifacility/download/repaper2.pdf

This paper analyzes the determinants of the utilization of curative care in a rural area of Senegal where health insurance will be extended as part of a pilot project by the national insurance scheme for agricultural workers.

In August 2008, the government of Senegal voted to adopt the National Agro-sylvo-pastoral Health Insurance Law in order to protect every individual working in the agricultural sector from health risks. An estimated 15 percent of the Senegalese population has health insurance.

The researchers first performed a literature review of studies on healthcare indicating that determinants of the likelihood of seeking treatment from a qualified provider include availability of a healthcare facility, level of education, gender, relationship to the head of household and health insurance. The researchers then surveyed 505 households and the staff of 18 community healthcare centers during May and June 2009, which confirmed the same key determinants of healthcare access.

The researchers found that insured people were 2.4 times more likely to seek care than the uninsured, a fact that the authors attribute to the lower out-of-pocket expense for those who are insured. A lack of financial protection for the poorest individuals can perpetuate healthcare inequality - and even income inequality - as deferred care may increase health problems and out-of-pocket spending may lead households to sell assets to finance their healthcare.

Number of Microcredit Clients Crossing the USD 1.25 a Day Threshold During 1990 - 2008: Estimates From a Nationwide Survey in Bangladesh

By Sajjad Zohir, published by the Microcredit Summit Campaign, August 2010, 53 pages, available at: http://www.microcreditsummit.org/uploads/files/Bangladesh_Report_FINAL.pdf

This report indicates that from 1990 to 2008 approximately 10 million Bangladeshis rose above the international poverty line of USD 1.25 per day. The study attributes this improvement to microfinance programs that enable poor people to start small businesses and access savings and insurance services. The study is based on a survey of approximately 4,000 Bangladeshi households from mostly rural communities and some urban slums that was conducted between February and August 2009.

The author supports his conclusions by citing their similarity to the Bangladesh Household Income and Expenditures Survey that estimates approximately 10.62 million Bangladeshis rose above the poverty line between 1990 and 2005.

The Shea Value Chain Reinforcement Initiative in Ghana

By Sonali Rammohan, published by Stanford University, December 2010, 13 pages, available at: http://www.gsb.stanford.edu/scforum/documents/GhanaSheaCase.pdf

This paper examines the Ghana Shea Value Chain Initiative, which organized 1,500 women into a network and trained them in business skills and shea nut processing. The results indicate that the women increased their incomes by 59 to 82 percent. Additionally, Olam International, a Singapore-based processor of agricultural products, agreed to purchase the initiative's products.

Report on the Performance of LuxFLAG Labelled MIVs

Published by the Luxembourg Fund Labeling Agency, November 2010, 52 pages, available at: http://www.luxflag.org/documents/brochures/LuxFLAG_Performance_Study_Nov2010_final_version.pdf

This study analyzes trends in the microfinance industry during 2009 and 2010, as well as the performance of microfinance investment vehicles (MIVs) that carried the LuxFLAG certification during that period. The study indicates that microfinance institutions (MFIs) and MIVs, widely thought to be de-correlated from capital markets, nonetheless felt the effects of the recent economic downturn. LuxFLAG-labeled MIVs in Central America and Eastern and Central Europe were particularly hard hit. But 2010 also saw liquidity levels of all labeled MIVs fall, and monthly returns are expected to increase, according to research conducted by Swiss investment intermediary Symbiotics. The study further indicates that MIVs are seeking new ways to invest in untapped - and potentially riskier - regions such as Africa and that MFIs are strengthening their risk management systems, developing new products and investing in customer relations.

Microfinance Banana Skins 2011

By David Lascelles and Sam Mendelson, published by the Centre for the Study of Financial Innovation, February 2011, 56 pages, available at: http://www.cgap.org/gm/document-1.9.49643/Microfinance_Banana_Skins_2011.pdf

PREVIEW: While credit risk remains the top perceived risk for microfinance, reputation risk and political interference are quickly rising. The risk of mission drift is also growing with the perception that more microbanks are favoring making a profit over poverty alleviation. *We invite you to return to this space in the March issue of the* MicroCapital Monitor *for a complete wrap-up of this report.*

The Effect of Microinsurance on Economic Activities: Evidence from a Randomized Natural Field Experiment

By Hongbin Cai, Yuyu Chen, Hanming Fang and Li-An Zhou; published by the University of Pennsylvania; December 2010; 28 pages; available at: http://www.econ.upenn.edu/~hfang/WorkingPaper/sow/insurance11.pdf

How effective is microinsurance? To what extent does its availability affect the decisions of farmers in poor countries? This study investigates the theory that a lack of access to formal insurance markets precludes farmers in poor countries from engaging in riskier activities that can yield higher profits.

The authors concoct an experiment regarding the raising of sows in China: a dicey endeavor given the price fluctuations of pork and the high incidence of disease among the animals. The work was carried out in 480 of the 580 villages in Jinsha County, China, where farmers have access to government-subsidized insurance for their sows underwritten by the Property and Casualty Company (PCC) of the People's Insurance Group of China. Animal husbandry workers (AHWs) serve as an intermediary between PCC and farmers, promoting policies and processing claims.

The authors separated AHWs into three groups to encourage different levels of microinsurance promotion: a control group of AHWs in 120 villages who each received a flat fee equivalent to USD 6 for participating in the study; a "low-incentive" group of AHWs in 120 villages who received a base of USD 3 plus USD 0.30 for each sow they insured and a "high-incentive" group of AHWs in 240 villages who received a base of USD 3 plus USD 0.60 for each insured sow. The numbers of insured sows and total sows were tracked during the one-month program and both three months and six months after the conclusion of the program.

During the exercise, farmers served by low-incentive AHWs insured an average of 9 more sows than the control group. Those served by the high-incentive AHWs insured 12 more sows than the control group. After three months, roughly 7 and 9 more sows were being raised per farmer in the low-incentive and high-incentive groups, respectively, as compared with the control villages.

The authors conclude that insurance allowed the farmers to increase their engagement in the risky business of raising sows. While conceding that their proxy for microinsurance availability was imperfect, the authors believe the results highlight the potential of microinsurance as a poverty alleviation tool.

Over-Indebtedness and Microfinance: Constructing an Early Warning Index

By Vivien Kappel, Annette Krauss and Laura Lontzek; published by the Center for Microfinance at the University of Zurich, responsAbility Social Investments AG, Triodos Bank and the Council of Microfinance Equity Funds; December 2010; 53 pages; available at: http://www.triodos.com/downloads/276627/over-indebtedness-report-full-study.pdf

This study attempts to provide a methodology for establishing an early warning index for over-indebtedness to aid in preventing future microfinance "crises." Over-indebtedness is defined as the "inability to repay all debts fully and on time… if this situation occurs chronically, i.e. in several periods in a row, and against the borrower's will."

The rapid growth of microfinance in recent years has attracted new entrants into the sector. With this trend, some markets have become over-saturated with microfinance institutions (MFIs), sometimes resulting in clients taking on more debt than they can repay, often by borrowing from multiple MFIs. The issue of over-indebtedness is compounded by borrowing from informal lenders, a lack of credit bureaux and the aggressive growth policies of many MFIs.

Over-indebtedness can be both psychologically and socially detrimental to borrowers, as well as harmful to the relationship between borrowers and MFIs. Although it can be hard to measure, investors place great importance on over-indebtedness because it lowers MFI portfolio quality.

Using data from a survey of 119 MFIs and a literature review including the relevant histories of Bolivia, Morocco and Bosnia and Herzegovina, the authors identify "leading indicators" that can signal forthcoming trouble. The 14 indicators include remittances per capita, market penetration, growth rate of total loan portfolio, quality and use of credit information systems, perceived commercial bank involvement, perceived levels and trends in competition, perceived investment flows, MFI liquidity and average loan balance per borrower.

These indicators are used to build a composite index called the Over-Indebtedness Early Warning Sign Index (OID Index), which is applied to data from several countries. Bolivia, Ecuador, El Salvador and Georgia were found to have a relatively low OID Index score. Armenia, Paraguay and Tajikistan were found to have a medium score. Bosnia and Herzegovina, Cambodia and Peru have a relatively high OID Index score.

The authors assert that the high score for Bosnia and Herzegovina is due to ongoing over-indebtedness lingering from the 2008 pinch. Cambodia's score is interpreted to be the result of a lack of a functioning credit bureau. Peru's elevated risk is due to high scores for perceived levels of competition, commercial bank involvement and investment inflows, combined with a high level of liquidity and the relatively strong presence of multiple lending and lending for consumption.

India Focus Notes 55 - 59

Variously authored by Anjaneyulu Ballem, Trivikrama Devi, Manoj K Sharma, Graham AN Wright and Veena Yamini A; published by MicroSave, December 2010 and January 2011, available at: http://www.microsave.org/india_focus_notes

This subset of the *India Focus Notes* series examines the trouble that has arisen in microfinance in the Indian state of Andhra Pradesh since late 2010.

The first paper, India Focus Note 55, argues that the current situation in Andhra Pradesh should have been more widely foreseen; while the second, India Focus Note 56, presents the problems the industry now faces, including a lack of product diversification and a high level of client over-indebtedness.

India Focus Notes 57 and 58 propose alternative actions microlenders and governments could take in order to thwart future, similar predicaments. The last of the five, India Focus Note 59, features clients' views on microfinance both prior to and pursuant to the downturn.