MICROCAPITAL BRIEFS | TOP STORIES

Microbank Compartamos Raises Half Billion with IPO in US and Mexico
This is the biggest deal yet in microcapital. Read the full story herein on the Initial Public Offering of the Mexican microbank. In two special features, we reflect on this landmark deal: “The Compartamos IPO” and “The MicroCapital Equity Report.”

Morgan Stanley and BlueOrchard Launch USD 108mn Bond
Morgan Stanley, a New York based investment bank, and BlueOrchard Finance, a Swiss microfinance fund management company, have announced the launch of a USD 108mn bond backed by loans issued to microfinance institutions (MFIs). The bond will be given a rating by Standard & Poor, a major independent credit ratings agency. The deal aims to fund loans to 21 different MFIs in 13 countries (Azerbaijan, Bosnia, Cambodia, Colombia, Georgia, Ghana, Kenya, Mongolia, Montenegro, Nicaragua, Peru, Russia and Serbia), facilitating loans to 70,000 people. The loans to MFIs will be at an average interest rate of 8.5% and will be offered in local currency. Standard & Poor will rate two classes of notes; a USD 42mn tranche at AA and USD 16mn at BBB. The remaining USD 50mn is unrated. Investments will be available in US dollars, British pounds, and euros. The deal is being dubbed ‘BOLD 2” after a previous collaboration between BlueOrchard and Morgan Stanley. BlueOrchard Loans for Development (BOLD) was a Collateralised Debt Obligation (CDO) which closed in April 2006 reported total fund assets of USD 99.1mn to MIX Market. May 9. 2007.

Mergers and Acquisitions in Nigeria by Regulation
Central Bank Nigeria (CBN) has endorsed a broadening of mergers and acquisitions among existing microfinance institutions (MFIs) or “community banks,” so that they can comply with minimum capital requirements which are part of forthcoming regulation. The regulation, which requires all such organizations to register as microfinance banks by December 2007 requires a minimum capital base of 20mn Nigerian naira (USD 156,500) for ’state community banks’ and the equivalent of USD 7,824,000 for ’federal community banks.’ After a meeting between CBN and the National Association of Community Banks of Nigeria (NACOB) Abdulgadir Bauchi, president of NACOB, said “community banks can now go into mergers and acquisitions so as to meet the deadline given by the apex bank to transform to microfinance bank[s].” Mr. Bauchi also announced that community banks would now be able to merge with other community banks within and beyond their local government areas, and that they are now permitted to merge with banks across state borders. CBN has so far received 144 applications from community banks for conversion to microfinance banks, of which four have been granted full licenses, 64 licenses have been granted “in principle” and 76 are still being processed. May 10. 2007

SHARE Microfin Ltd. Takes USD 27mn in Private Equity
Private firms Legatum and Aavishkaar Goodwell have agreed to a joint equity investment of USD 27mn in the capital shareholdings of SHARE Microfin Limited (SML), an Indian microfinance institution (MFI). With a USD 25mn share of the equity investment, Legatum gains the majority interest of SML. Legatum was founded in December 2006 in Dubai, following the de-merger of Sovereign Global Investment (Sovereign), Legatum’s parent company. Sovereign had invested funds globally since 1986; Legatum now manages a portion of this portfolio. Legatum holds over USD 1bn in Indian investments, including significant share holdings in ICICI Bank, the Housing Development Finance Corporation Ltd (HDFC), HDFC Bank, United Trust of India Bank (UTI Bank), and Indiabulls Finance Services. May 17. 2007

MicroCapital would like to recognize the individuals at CGAP, The MIX,, and microfinancegateway.org for their outstanding work disseminating information on microfinance. Thank you!

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MICROCAPITAL BRIEFS

Sandana Becomes Western Union Agent

Western Union, a global dominant in money transfer services, has confirmed a partnership with Sandana, a microfinance institution housed in city of Hydrabad, India, and is one of the top microbanks in India. Money transfer services will be available via Western union from all 280 of Sandana’s branches. Sandana was established in 1998 and in 2006 reported USD 97mm in total assets and a 1,074.84% debt/equity ratio. Their main sources of funding include ICICI Bank, SIDBI, and Indian Overseas Bank. There are 40,000 Western Union agents across 4,000 towns in India. According to Western Union’s country director, Mr. Ratheesh Kumar, based on the success of the present tie-up, plans will be drawn up to forge alliances with other similar institutions. May 21, 2007

EBRD Lends USD 1m to Frontiers LLC

The European Bank for Reconstruction and Development (EBRD) will lend USD 1 million to Frontiers LLC, the wholesale microlending company based in Bishek, Kyrgyzstan. The loan will be accompanied by USD 100,000 grant. Frontiers was established in 2003 by US non-profit organization ACDI/VOCA with USD 3 million of start-up capital. At the year end 2006 Frontiers reported total fund assets of USD 4.5 million and 30 active microfinance investments. Frontiers provides financing to non-banking financial institutions in Central Asia to lend to micro-entrepreneurs. ACDI/VOCA was formed by the 1997 merger of two US non-profit organizations, and the organization largely operates through funding from USAID, the World Bank, United Nations Development Programme (UNDP), and EBRD among others, as well as forming an increasing number of partnerships with private companies. The EBRD is a multilateral institution formed in 1991 to support market economies and democracies from Central Europe to Central Asia. The organization currently works with more than 70 commercial banks and non-banking financial institutions to support microbusiness and microfinance. To date it has lent more than USD 1 billion for microfinance. May 21, 2007

Sri Lankan Legislation to Parliament in June

Next month, the Parliament of Sri Lanka will consider the Microfinance Institutions Act (MFIA). The legislation was described by The Sunday Times Online, an English-language newspaper of Sri Lanka, which wrote that the bill’s drafting came out of concern for “aid wastage, duplication of funds and corruption” within the Sri Lankan microfinance sector. Under the MFIA, there would be a fixed amount of minimum net assets held by a MFI to operate. For MFIs conducting business nationwide, the minimum would be USD 450,000; for MFIs operating inside of one of the nine provinces, USD 450,000; within the twenty five administrative districts, USD 45,000; within one of the hundreds of Divisional Secretary’s Divisions, USD 9,000. If the MFIA is passed, it would be implemented by the Department of Supervision of Non-Bank Financial Institutions (DSNBFI) of the Central Bank of Sri Lanka. May 21, 2007

Mibanco Anticipates 40% increase in Loans

Peruvian Microbank Mibanco expects to cap off the year with a loan book of USD 470mm, an additional 40% to last year’s figure. The rise is account-able to an expected increase in deposits and loans from various multilateral banks and international funds including the IFC, Triodos, and the Inter-American Investment Corporation (IIC). Finishing off in 2006, Mibanco possessed around USD 389mm in total assets, and a 644.31% debt/equity ratio. They also had 223,182 active borrowers and 160,636 savers. Currently, their number of borrowers has gone up to about 230,000 and they aim to hit 300,000 by the end of this year. The bank intends to open an additional 17-20 branches, bringing the total number to above 90. May 18, 2007

Microbank in a Box? Indian Leaders Offer Franchise Package

Dr. Nachiket Mor, Deputy Manager Director of the India-based ICICI Bank, has started IntelleCash, a microfinance training, investment, and banking program. IntelleCash seeks to help entrepreneurs build microfinance institutions (MFIs). Dr. Mor of ICICI Bank was joined in a partnership by Aavishkaar Goodwell, a for-profit business development firm, Intellectual Capital Advisory Services (Intellecap), a consultancy, and the largest MFI of North India, CASHPOR. The IntelleCash Franchise Package, consisting of a business plan, financial model, and manuals, was designed by Intellecap and CASHPOR. ICICI Bank will be the primary banker for the IntelleCash-assisted MFIs. The bank has worked with 208 MFIs, and its portfolio consists of USD 517 million in loans to MFIs. The goal is to create 60 franchisee MFIs 2010. May 18, 2007

SKS and Citibank Announce USD 44mn Financing

On the heels of last month’s announcement of new equity investors, Indian microfinance institution (MFI) SKS Microfinance has announced a USD 44mn (Rupees 1.8bn) financing partnership with Citibank. Citibank India will purchase loans which SKS will continue to originate and service, sharing the credit risk of the transaction. May 16, 2007

LAPO Borrows USD 1mn from Citi Backed by Grameen Foundation

Citibank will provide a USD 1mn Nigerian naira equivalent structured loan through its subsidiary the Nigerian International Bank (NIB) to Lift Above Poverty Organisation (LAPO), a Nigerian microfinance institution (MFI). The loan is supported by a USD 500,000 guarantee from the Grameen Foundation. The deal is LAPO’s first commercial transaction with a bank and the first transaction between Citibank and a Nigerian MFI. LAPO was founded in 1987 and has been a Grameen Foundation partner since 2002, during which time it has increased its client base from 15,000 to 90,000. At year end 2006 LAPO reported a gross loan portfolio of almost USD 8mn, a capital to assets ratio of 28.83% and a debt to equity ratio of 246.88%. Citigroup, based in New York, dates back to the foundation of Citibank in 1812 and in 2006 it reported total assets of USD 1,884bn and a return on equity of 18.8%. May 11, 2007

Equity Bank of Kenya and China Development Bank

Equity Bank, a microfinance institution (MFI) that currently owns 35% of the bank accounts within Kenya, has been meeting with China’s development establishment to flesh out an arrangement centered on microfinance. Specifically, China Development Bank (CDB) has been looking to improve upon low-cost housing initiatives and seeks to utilize Equity Bank’s know-how. CDB Deputy Governor Mr. Liu Kegu says that Equity Bank has improved upon settlements in rural areas. Equity Bank, founded in 1984, is the largest bank in the region, with upwards of USD 287mn in total assets as well as an 809.75% debt/equity ratio. As of 2006, it has a 4.85% return on assets, 252,147 active borrowers, and 1,014,474 savers. The CDB is primarily responsible for China’s infrastructure projects. Such projects include the Three Gorges dam, the south-north water diversion project and the strategic oil reserve. Today it has some Rmb3,000bn (USD 390bn) in assets, exceeding those of the World Bank and Asian Development Bank combined. May 9, 2007

Unitus Partners with MBK Ventura Indonesia

Unitus, a non-profit consultancy and venture capital firm, has recently announced a USD 1.2mn equivalent loan arranged for MBK Ventura, an Indonesian microfinance institution (MFI). The loan, structured in Indonesian rupiah, is made up of two USD 600,000 contributions from The Dignity Fund LP, a microfinance fund based in California, and MicroCredt Enterprises, a non-profit organization also based in California. MBK Ventura was established in 2003 as a “non-bank financial company” regulated by the Indonesian Ministry of Finance and in March 2007 counted 31,000 clients. At year end 2006, MBK reported to the MIX Market, the microfinance
Where Governments Can’t...
WaterPartners International, a US based non-profit organisation, is in the midst of increasing growth in their WaterCredit Initiative which applies the basic principles of microfinance to the water and sanitation sector. The organisation aims to “provide safe drinking water and sanitation to people in developing countries” and has been running pilot projects since 2004. With the help of partner organisations in the field, WaterPartners provides small unsecured loans to individuals and communities which are used to finance the up-front costs of water and sanitation systems. One pilot project in Boya, Kenya, provided a USD 21,000 loan, denominated in Kenyan schillings, to a group led by the local voluntary water committee. WaterPartners International works with partner organisations in Bangladesh, Ethiopia, Kenya, India and Honduras. It began its operations in 1990 and was incorporated in 1993. In a financial statement for 2006 the organisation reported total assets of USD 1,993,121. May 7. 2007

ABN-AMRO Bank Reports Strong Microlending in India
ABN-AMRO bank, based in the Netherlands, has recently reported strong growth in its Indian operations, including the microfinance sector. For the year ending March 31st 2006, the bank’s total profit in India grew 23.7% to 2.4bn rupees (EUR 42.9mn). ABN-AMRO reported that the first quarter of 2007 was the best ever for their Indian operations, as the balance sheet grew 52.9% to Rs 235.4bn (EUR 4.2bn) and revenue increased by 48%. ABN-AMRO’s small and medium enterprise (SME) and mid-market client base more than doubled, compared with the same quarter the previous year, and their microfinance business now reaches 391,590 low income households via 27 different microfinance institutions (MFIs) in 17 Indian states. This news follows a previous announcement in April 2007 that the organisation would aim to increase its future growth and presence in India and the microfinance sector. The bank launched its microfinance operations in September 2003 and aims to reach 1mn rural and underprivileged women with its financial services by 2009. May 4. 2007

CHF and Ghana’s HFC Bank Launch Boafo Microfinance Services
Boafo Microfinance Services Ltd, a newly established microfinance institution (MFI), recently disbursed its first microcredit loans in Accra, Ghana. The organisation is the product of a joint venture between CHF International, a US based non-profit humanitarian and development organisation founded in 1952, and HFC Bank, a commercial bank which is the largest mortgage provider in Ghana and an experienced provider of microfinance loans. Boafo will provide loans to micro- and small enterprises, homeowners and families for investment in healthcare and education (loans to range in size from equivalent USD 500 to 10,000). HFC Bank will dedicate some branches solely to the new initiative. CHF currently has microfinance operations across 11 countries in Latin America, the Middle East and Eurasia. In the financial year 2006, CHF had an operating budget of USD 120m and approximately 2000 staff worldwide. HFC Bank Ghana provides mortgage financing, commercial and investment banking services. It reported a 52.6% increase in total assets in 2006 to USD 116mn and a 70.2% increase in profit to USD 1.4mn. May 4. 2007

Private Equity Fund Sponsors Business Plan Competition in India
Winners of the 2007 Srijan Microfinance Business Plan Competition Award, based in India, were recently announced. The awards are organised by Intellecap, a consultancy, and the Aavishkaar Goodwill India Microfinance Development Company (AGI), a venture capitalist specializing in microfinance. The first place prize of USD 3,600 went to Vijaya Switha of Chitrika, an artisan support organisation with a focus on weavers. In second place was Dhanaka, an online microfinance exchange platform where investors can provide microloans to borrowers through microfinance institutions (MFIs). Rickshaw Bank was awarded third place for a partnership strategy to extend the bank’s coverage into new areas. May 3. 2007

Triodos Lends USD 1.45mn to K-REP Bank of Kenya
This is another deal coming to us courtesy of the April 2007 CGAP-MIX newsletter. The Kenyan full-scale financial services bank K-REP received a USD 1.45mn loan from the Hivos-Triodos Fund and the Triodos Fair Share Fund. K-REP reported at the end of 2006 having a gross loan portfolio of USD 54mn and USD 74.9mn in total assets and 114,301 active borrowers. It has a 17.2% capital to asset ratio, a 481.36% debt to equity ratio and a 43.95% deposit to loan ratio during the same period. The Hivos-Triodos Fund was founded in 1994 as a joint initiative of the Humanist Institute for Development Cooperation (HIVOS) and Triodos Bank. May 1. 2007

President Urges Philippines SS into Microfinance Investment
President Gloria Macapagal Arroyo of the Philippines announced in a bullish speech given at the Second National Convention of the Account Officers of the Social Security System (SSS) that the SSS would move into “investment areas like microfinance.” Since the SSS funds have increased from 196.3bn Philippine Pesos (USD 4.1bn) in 2005 to P 225bn (USD 4.8bn) in 2006, overcoming what President Arroyo has called “insurmountable challenges,” it aims to widen its market and get into further investment areas. The Government of the Philippines passed the General Banking Law of 2000 which “actively encouraged banks to increase their microfinance services.” The number of rural banks involved in microfinance in the Philippines has increased from 55 in 2000 to 189 in 2006. The details of how and the extent to which the SSS will invest in the country’s microfinance industry remain unknown. April 30. 2007

Incofin Invests in Bolivia, Uganda, Ghana and Tajikistan
The Belgium-based Impulse Microfinance Investment Fund (Incofin) invested USD 1.4mn in the Bolivian microfinance institution (MFI) Fondo Financiero Privado para el Fomento a Iniciativas Economicas (FIE) through a purchase of a ten percent share of capital stock. FIE was founded in 1985 to be an equitable and inclusive financial institution for micro- and small entrepreneurs in Bolivia. In addition to short, medium and long term loans, it offers a venue for voluntary savings, fund transfer services and training and consulting for micro- and small businesses. According to MIX market, the microfinance information clearinghouse, FIE had a gross loan portfolio of USD 101mn at the end of 2006 and USD 129mn in total assets during the same period. Incofin also made a USD 730,840 loan to Uganda Microfinance Limited, an MFI founded in 1997 with the backing of the Ugandan Central Bank. Incofin’s third investment was a USD 300,000 loan to Sinapi Aba Trust, Ghana, a subsidiary of Opportunity International, a large US non-profit. Sinapi Aba Trust reported to MIX market on 31 December 2005 a gross loan portfolio of USD 4.7mn and USD 8.2mn in total assets. Finally, Tajikistan-based Eskhata Bank borrowed USD 1mn. April 27. 2007 & April 18. 2007

MicroCredit Enterprises and Tokyo Star Bank Pledge USD 4.8mn
MicroCredit Enterprises (MCE), a US non-profit, announced a USD 4.8mn revolving line of credit with the Tokyo Star Bank, a USD 13bn commercial bank based out of Tokyo, Japan. MCE will use the line to provide financing to microbanks. April 26. 2007

Muslim Aid Microfinance Workshop in Sri Lanka
Muslim Aid, a British international relief organisation based in London, is holding a workshop from April 23rd to April 27th to promote “interest free” microloans, that are thus in keeping with the Islamic faith. Muslim Aid has invited scholars and academics specializing in development and Muslim finance to the consultation which is being held in Colombo, Sri Lanka. The workshop also coincides with the launch of a GBP 22,500 (USD 11,250) microfinance
project Muslim Aid is running in Cambodia from its Phnom Penh office. Muslim Aid reported total funding in 2005 of GBP 6.7mn (USD 13.4mn). Country coordinator for Muslim Aid in Cambodia explains “the main difference between Muslim Aid’s microfinance scheme and other schemes is that [Muslim Aid] loans are interest free.” The organisation’s aim is to have tested and sustainable microfinance institutions based on the principle of zero interest rates operating by 2010. April 25, 2007

responsAbility Lends in Philippines, Peru, Nicaragua and Moldova

In addition to other microfinance investments this month, responsAbility Global Microfinance Fund continues its streak with four additional loans ranging from USD 200,000 to USD 1mn, totaling USD 2.2mn. The first of the loans is a USD 200,000 investment going to the Cooperative Rural Bank of Bulacan of the Philippines. The second loan was to the Peruvian microfinance institution (MFI) Cooperativa San Martin de Porres for USD 513,120. Banco ProCredit Nicaragua, an MFI that also provides checking, savings, time deposits and remittance services, was lent USD 1mn. Moldovan nonbank financial institution MicroInvest received a USD 500,000 loan. MicroInvest was established in 2003 by the Soros Foundation Moldova and the NGO Moldova Microfinance Alliance to provide microfinance services to small businesses in both rural and urban areas in the Republic of Moldova. It reports to MIX Market a gross loan portfolio of USD 4.1mn and USD 6.9mn in total assets as of 31 December 2006. During the same period, its capital/asset ratio was 23.73% and its debt/equity ratio was 321.33%. April 23, 2007

FINCA Azerbaijan Borrowers USD 3 million

The Foundation for International Community Assistance (FINCA) in Azerbaijan received a USD 3mn loan from Microfinance Loan Obligations SA, a transaction intermediated by Switzerland-based Symbiotics. FINCA Azerbaijan is a microfinance institution (MFI) that was established in 1998 to “provide financial services to the world’s poorest families.” According to MIX market, the microfinance information clearinghouse, FINCA Azerbaijan has USD 20.9mn in total assets, a gross loan portfolio of USD 19.2mn and nearly 50,000 active borrowers (as of 31 December 2006). Microfinance Loan Obligations does not report to the MIX market and further information is unavailable. April 23, 2007

Central Bank Nigeria Looks Beyond Compliance

Following news that the Central Bank Nigeria (CBN) would impose new regulations on microfinance banks last year, the CBN is preparing a systematic certification programme for microfinance banks operating in Nigeria. The new regulations announced last year impose a deadline of December 2007 for microfinance institutions (MFIs) to comply with the new measures and convert to microfinance banks. The CBN intends to base a certification on international best practices and expects to enforce compliance with the certification requirements within three years. The certification plan for 2008 was announced at the West African Institute for Financial and Economic Management (WAIFEM), established in 1996 by five African central banks and the Financial Institutions Training Centre (FITC), a non-profit organisation established in 1981 to develop human capital and advisory services in the Nigerian banking sector. These groups will be working with CBN to manage the certification. April 20, 2007

Cashpor Receives USD 1.16mn Loan from HDFC Bank

Cashpor, an Indian microfinance institution (MFI), received a USD 1.16mn line of credit from HDFC Bank, also based in India, enhanced by a USD 111,500 guarantee from the Grameen Foundation. Cashpor was established in 1997 and reported to the MIX market on 31 March 2006 as having a gross loan portfolio of USD 11.4mn. April 20, 2007

Pak-Oman Microfinance Bank Expands in Karachi

The Pak-Oman Microfinance Bank opens its twelfth branch nationwide in Mehmoodabad, a district of Karachi, the capital city of Pakistan. Pak-Oman Microfinance Bank was established in 2005 as a nationwide bank with capital of Rs 500mn (USD 8.24mn), jointly sponsored by the Government of the Sultanate of Oman and Pak Oman Investment Company. Pak-Oman is a specialized financial institution formed as a joint venture between the Governments of Pakistan and Sultanate of Oman in July 2001. Pak-Oman’s mission is to help fight poverty by providing financial services to micro-enterprises on a sustainable basis. As of December 2006, Pak-Oman Bank achieved its target of opening 10 branches, 10,000 customers and disbursement of Rs 100mn (USD 1.65mn) with a quite amazing 100 percent loan repayment rate in 2006. Pak-Oman does not report to the MIX Market, the microfinance information clearinghouse. April 19, 2007

The industry standards in microbank data and investment deals are the MIX Market and the CGAP-MIX Capital Markets Newsletter respectively. They are our main sources for news on the same. Please support these organizations to undo the microfinance “data dearth”.

MSC 108,000,000 Bond

backed by loans issued to Microfinance Institutions (MFI)

Standard and Poor’s Ratings
1) USD 42,000,000 tranche at AA
2) USD 16,000,000 at BBB
3) Remaining USD 50,000,000 is unrated.

Investments will be available in US dollars, British pounds, and euros.

Morgan Stanley, based in Geneva, co-manages and advises various microfinance investment funds.

Morgan Stanley is an investment bank, retail broker, and credit card provider headquartered in New York City.
**PAPER WRAP UP**

**“Microentrepreneurs and Their Money: Three Anomalies”**
By Bindu Ananth, Dean Karlan and Sendhil Mullainathan

The authors consider how microfinance clients manage their cash. They ask what drives and constrains their behaviour and if there are any underlying patterns to the choices they make. From observations in the field, they focus on three anomalies they have found in this behaviour that they consider inconsistent with much "received wisdom."

The first anomaly is "persistent borrowing cycles," which alludes to the fact that many microfinance clients find themselves in perpetual debt. Using an example from vegetable vendors in Chennai, India, they describe how they typically borrow daily to finance "working capital."

The vendors borrow in the morning at a high interest rate and pay the loan back in the afternoon with the day's sales. An analysis of the figures illustrates how vendors could begin to save a very small daily amount, taking little time for the savings to vastly reduce the cost of borrowing. In explanation the authors decide it is most likely vendors do not fully appreciate the compounding effect of saving cash and paying less interest on loans and that they have limited access to cheap savings devices which would help unravel their debt. The authors are currently testing this point in the field and trying to facilitate the switch from a debt cycle to a savings cycle.

The second anomaly concerns "too few joint production ventures." As many microfinance institutions (MFIs) are built on group solidarity, the authors ask why there are not more profitable joint ventures taking advantage of economies of scale. They illustrate the point with reference to dairy farmers who often have their own cheaper, low-yielding cows rather than jointly owning more expensive, higher-yielding cattle. People regularly cooperate in credit groups with MFIs, but only because it makes credit cheaper. So the authors suggest, "if joint liability is negative rather than positive feature from the demand side, our thinking on optimal liability structures should change."

They propose devising more individual lending and savings products, and only promoting group structures for cost saving reasons.

The third and final anomaly is "non-financial market failures" – situations which are responses to failures in other, "secondary" markets. The first is in labour markets, as MFI loans are rarely used to finance growth through hiring external labour. The second is in the durable good rental market, referring to rag-collectors who rent pushcarts daily rather than purchasing them outright. The authors offer interventions in the secondary markets as a solution. Examples include providing childcare so women are free to leave the home to work and offering credit for "high end" needs such as capital rental. They suggest MFIs currently place too much emphasis on "entrepreneurship" and propose that "being an entrepreneur may be the occupation of last resort given a labour market failure."

In conclusion, the paper offers a better understanding of some peculiarities of client behaviour in the hope that it will contribute to better "microfinance programme and product design."

**“Microinsurance Note 3 – Partnerships: Microfinance Institutions and Commercial Insurers”**

When Compartamos, a Mexican microfinance institution (MFI), announced it was looking for an insurance partner, it had several international firms fighting for its business. This paper presents a model for the structure of such relationships in the provision of microinsurance products. It claims efficiency in transactions and operations is essential to reduce premium costs while expanding coverage. The authors suggest MFIs "might be the perfect intermediary for insurers to reach the low income market," as they have already developed financial relationships in this area.

The first section introduces why relationships in the model (illustrated later in the paper) are beneficial and attractive to MFIs, insurers and low income policy holders. Noting how clients who fall behind in payments after a few loan cycles often have common problems such as family illnesses, many MFIs have turned to commercial insurers to reduce these problems. Despite initial scepticism among insurers, it is now a serious business which the authors expect to "expand dramatically as products and processes improve."

The model presented is an MFI-centred relationship. It claims that for the greatest efficiency the MFI should understand its clients' demands and identify a clear product concept. It would then identify an insurer who would have responsibility for final pricing and product design, which is taken to market by the MFI. After outlining this structure, the paper addresses "formalising the relationship" and suggests that making formal agreements will minimise future disagreements and foster a better working relationship. Key responsibilities identified are underwriting, staff training, premium collection and remittance and claims processing.

The penultimate section looks at "challenges for MFI partnerships with insurers" and touches on issues raised from past experiences. For example, as insurance is not usually the "core business" of an MFI, the authors claim it often receives inadequate attention, particularly when problems arise. They also suggest insurance agencies have found it useful to identify a single contact person in the MFI; some even place one of their own agents there to monitor sales and services.

The paper concludes with eight key factors for success, claiming that "where insurer/MFI partnerships have been most successful, [these key] characteristics of the products, processes, and relationships have been present."

They include, for example, products which are valued by MFI clients and those that are simple and/or mandatory. They suggest sufficiently trained field staff able to devote adequate time to insurance products are a key factor, as well as MFIs which have sufficient knowledge and motivation to represent their clients to the insurer.

The model provides a practical and panoramic view of the working relationship between insurers and MFIs in a nutshell and identifies the responsibilities taken on by each partner. Although some key factors for success and greater efficiency are identified, there is certainly room for the authors to dig a little deeper into the likely pitfalls of such a venture and the causes of inefficiencies in existing partnerships.

**Asian Development Bank (ADB) Advises Securitisation Can Support Microfinance Throughout Asia**

The Asian Development Bank (ADB), a multilateral development financial institution, claims securitisation of assets has the potential to support the region's microfinance industry and its numerous microfinance institutions (MFIs). Since the financial crisis that hit the region and its "tiger economies" in 1997 and 1998, the securitisation of assets has experienced relatively strong growth; bond markets in the region increased by 32.4% in 2006. On the back of this trend the ADB has launched the new initiative "to encourage use of securitisation."

The ABM reports "securitisation may provide a commercial funding route to established microfinance intermediaries, which with freer access to funding may in turn extend their lending to small scale borrowers." By pooling and reducing risk, securitisation may make cheaper (lower interest rate) money available to MFIs. However, the ADB also recommends regional governments should aim to complement commercial trends and invest capital and resources in institutional improvements, common standards and structured finance techniques. The bank frets that structural assistance with refinancing for Asian MFIs requires commitment, because commercial investors are unfamiliar with “nontraditional” borrowers such as MFIs.
UPCOMING EVENTS

CHICAGO MICROFINANCE CONFERENCE (CMFC)
MAY 29, 2007, CHICAGO, USA
A keynote address will be given by Vikram Akula, founder and CEO of SKS Microfinance, a microfinance institution based in India. Admission is USD 25 for students and non-profit organizations, USD 40 for alumni and faculty members and USD 65 for general admission. For more information, contact Griffin Murray at chicagomicrofinance@gmail.com or see http://chicagomicrofinance.com/.

WORLD BANK CONFERENCE "ACCESS TO FINANCE: BUILDING INCLUSIVE FINANCIAL SYSTEMS"
MAY 30-31, 2007, WASHINGTON DC, USA
The World Bank is hosting this conference to further the Millennium Development Goals and as a follow-up to the Year of Microfinance. The Brookings Institution is co-organizing and co-sponsors include: ABN-Amro, Citigroup Foundation, Temenos, United Nations Capital Development Fund, and the World Savings Banks Institute. For more information, please see http://go.worldbank.org/YFVMB6W701 or contact Conference Coordinator, Ms. Colleen Masencik. Financial Sector Learning Program, The World Bank, Washington, DC. Telephone: +1 202 473 7734, Fax: +1 202 522 7105, Email: cmasencik@worldbank.org

SUSTAINABLE BANKING CONFERENCE AND AWARDS BY THE FINANCIAL TIMES AND THE WORLD BANK GROUP
JUNE 1, 2007, LONDON, ENGLAND
This year’s nominees for Sustainable Bank of the Year are: ABN Amro; Bank Sarasin; Barclays; HSBC; and Standard Chartered. The conference fee ranges from USD 300-6,000 per person and no contact information is available from the sales desk. See website: http://www.ftconferences.co.uk/sustainablebanking/home.asp?m_pid=0&m_nid=16218.

THE MICROFINANCE CENTRE’S (MFC) 10TH ANNUAL CONFERENCE
MAY 31 – JUNE 2, 2007, BULGARIA
The conference is organized in cooperation with the Bulgarian Microfinance Alliance (BMA). All plenary sessions and some workshops will be translated into Russian and Bosnian/Serbian/Croatian. Contact e-mail: conference@mfc.org.pl. Microfinance Centre can be contacted at ul. Koszykowa 60/62 m. 52, 00-673 Warsaw, Poland, tel.: (48-22) 622 34 65, fax: (48-22) 622 34 85, e-mail: microfinance@mfc.org.pl, http://www.mfc.org.pl/conference2007/

INTERNATIONAL TASK FORCE ON SOCIAL PERFORMANCE MEETING
JUNE 10-12, 2007, PARIS, FRANCE
"The agenda will focus on progress on the definition of core indicators for social performance reporting, a review of experiences in applying social rating, and outreach to social investors." For more information, please contact Laura Foose, at lfoose@alternative-credit.com, or the Imp-Act Programme at The Institute of Development Studies, University of Sussex, Brighton, East Sussex BN1 9RE, United Kingdom. Tel: +44 (0)1273 873 733, Fax: +44 (0)1273 621 202 / 691 647.

ACCION INTERNATIONAL DELEGATION TO PERU
JUNE 1 – JULY 1, PERU
"ACCION invites you to witness the power of microfinance at work. Join ACCION partner Mibanco, Peru’s first commercial bank committed to serving the poor. For three days, the delegation will meet with loan officers and visit the businesses of microentrepreneurs around Lima to see how microfinance is changing lives. Following the client visits, interested delegation members can continue on to Cuzco and Machu Picchu to celebrate the winter solstice on June 24, 2007. Contact Accion for fee information at campaign@accion.org or the general number in Boston at 617-625-7080.

UNDERBANKED FINANCIAL SERVICES FORUM
JUNE 10-12, 2007, DALLAS, TX, USA
The event is the second installment of the annual Underbanked Financial Services Forum. It targets banks, credit unions, technology companies, retailers, alternative providers, non-profit organizations, and regulators, that seek “to capitalize on expanding opportunities offered by emerging markets. The registration fee ranges from $595 to $1495. For more information, please go to: http://www.sourcemediaconferences.com/CF5807/index.html.

SANABEL 4TH ANNUAL CONFERENCE “BRIDGE THE GAP, MAINTAIN FOCUS”
JUNE 12, 2007 – JUNE 14, 2007, YEMEN
The conference is sponsored by Sanabel Microfinance Network of Arab Countries, the leading trade association in the region. The conference fee ranges from $250-350 with a discount for early registration until April 15. For more information, call 20-2-3350714 or 7488624 at 1 El Sad El Aly Square, 5th Floor, Suite 51, Dokki, Egypt, http://www.sanabelnetwork.org/en

FREDERICKS MICROFINANCE CONFERENCE 2007
JULY 13, LONDON, UK (THE LONDON STOCK EXCHANGE)
The organizers intend to make this event annual. The sponsors include The London Stock Exchange, McGraw-Hill, and A Billion Bootstraps. For more information, please contact Margot Wilson at margot@federicksfoundation.net or +44(0)791 864 2528, or go to http://www.federicksfoundation.org

1ST ASIAN CONFERENCE ON MICROINSURANCE
JULY 25-26, MANILA, PHILIPPINES
With the theme “Meeting the Insurance Needs of the Masses with the Right Socio-Business Strategies,” the conference “will look at the opportunities and challenges in Micro Insurance. The registration fee ranges from $700 to $1480. For more information, contact Ms Michelle Suppiiah (DID 65-63723178 or Email michaell@aisiansurancecereview.com), or go to http://www.aisiansurancereview.com/pages/conference_details.asp?id=60.

2007 WORLD CREDIT UNION CONFERENCE
JULY 29-AUGUST 1, 2007, CALGARY, CANADA
The conference is hosted by the World Council of Credit Unions (WOCCU) and co-hosted by Credit Union Central of Canada. The conference will bring together credit union leaders from over 40 different countries. Registration fees range from $995 to $1345. For more information, please go to http://secure.lenos.com/lenos/omegametings/woccu07/.

SUMMER ACADEMY ’07 “LEADING CHANGE IN MICROFINANCE MARKETS”
AUG 19, 2007 – AUG 31, 2007, BAD HOMBURG, GERMANY
Sponsored by the Frankfurt School of Finance & Management. “The Summer Academy focuses on microfinance managers and has been designed for senior management from younger MFIs as well as mid-level managers from mature MFIs. Number of participants limited to 30. Conference fee is EUR 4,990. For more information, please contact Carolin Drucks at +49-69154006-616 or c.drucks@frankfurt-school.de, http://www.frankfurt-school.de/content/en/intern_advisory/summeracademy_en.html

3RD AFRICAN MICROFINANCE CONFERENCE: NEW OPTIONS FOR RURAL AND URBAN AFRICA
The last two African Microfinance Conferences were held in South Africa in 2003 and 2005. This event is backed by the Association of Microfinance Institutions of Uganda (AMFIU). The conference fee is $500 until July 15 and $650 thereafter. For more information, please contact Conference Secretariat: Global Events Management, Uganda International Conference Centre, Office No. 242, PO Box 35422, Kampala, Uganda. Tel: +256 41 343 735, Email: gloevents@infocom.co.ug; Web site: www.amfiu.org.uk

YOUTH MICROENTERPRISE CONFERENCE
SEPTEMBER 10-11, 2007, WASHINGTON, DC
For more information, please go to: http://www.ymeconference.org/. Other contact information: Email: whitney@makingcents.com; Skype: ymeconference; Tel: +1-202-783-4090.

MICROFINANCE INDIA CONFERENCE 2007
OCT 18-19, 2007, NEW DELHI, INDIA
This event is the fourth in a series of annual conferences. Registration fees range from Rs 3200 to Rs 3800 for Indian Organizations, from R2800 to Rs 3200 for RRB Chairperson/Branch Manager, Rs 175 to $225 for International Organizations. For more information about the conference, contact Mr. Nishant Tirtha (phone: +91 11 2651 0915 (Ext – 250); fax: +91 11 2685 0821; email: microfinanceindia@accessdev.org), or go to http://microfinanceindia.org/Docs/Save%20the%20date.pdf.

MICROINSURANCE CONFERENCE 2007
NOVEMBER 13-15, MUMBAI, INDIA
This event is in its third year and jointly hosted by the CGAP Working Group on Microinsurance and the Munich Re Foundation with the support of the IRDA. The organizers of the conference have extended the call for papers. For more information, contact Dirk Reinhard, Vice Chair, Munich Re Foundation Telephone +49-89-3891-5909, info@munichre-foundation.org, www.munichre-foundation.org, www.micorinsuranceconference2007.org.
MICROFINANCE MARKET INDICATORS: SUB-SAHARAN AFRICA

30 COUNTRIES | 211 MFI'S REPORTING

- **Central**
  - Cameroon
  - Chad
  - Congo
  - Congo, DR
  - Liberia
  - Niger
  - Nigeria
  - Rwanda

- **East**
  - Ethiopia
  - Kenya
  - Tanzania
  - Uganda

- **South**
  - Angola
  - Malawi
  - Mozambique
  - Namibia
  - South Africa
  - Swaziland
  - Zambia
  - Zimbabwe

- **West**
  - Benin
  - Burkina Faso
  - Cote D'Ivoire
  - Ghana
  - Guinea
  - Mali
  - Senegal
  - Sierra Leone
  - Togo

**Total Population (mm)**: 645.7
**GDP (US$ mm)**: $521,648
**GNI per capita (US$)**: $732
**Population Density (inhab/sq km)**: 72.5
**Microcredit Penetration**: 0.62%

**SSA TO USA RATIOS**

- **Population**: 2.14
- **GDP**: 25.4
- **GNI**: 60

**NUMBER OF MFI'S BY TOTAL NUMBER OF BORROWERS**

- Total Number of Borrowers (mm): 4.01
- Total Number of Savers (mm): 7.86
- Average Loan Balance Per Borrower (US$): $544
- Total Equity (US$ mm): $522.4
- Voluntary Savings (US$ mm): $1,140
- Gross Loan Portfolio (US$ mm): $1,210

Based on MFIs reporting to MIX Market or Microbanking Bulletins (MBBs).
2003-2004 used when 2005 not available.

(1) Include MFIs that only report to MBBs
(2) Simple average over all MFIs in region
(3) Based on World Development Indicators, 2005. Averages are weighted using total population.
Only countries with MFIs reporting to MIX are considered.
(4) Calculated using ratio of Total MFI borrowers to Total Population
THE COMPARTAMOS IPO

FRIDAY, APRIL 19, 2007

Mexican Microbank Compartamos Set to Price IPO

The moment of much anticipation has finally arrived for the microfinance world. LatinFinance’s Daily Brief was the first to break the story according to Gray Ghost Funds, a microfinance investment group. The big news is public: “Mexico’s Banco Compartamos is set to become the first Latin American microfinance institution to raise equity capital when it prices an IPO on the Mexican Bolsa today, Thursday. Carlos Danel, co-executive director at Compartamos tells LatinFinance that the offering of secondary shares will allow some shareholders to partially monetize their stakes in the bank. The offer, which comprises an international 144a Reg S tranche and a Mexican retail tranche, should price in the range of 30 to 40 pesos a share, and could raise as much as $400 million, according to a source close to the deal. Credit Suisse is global coordinator and bookrunner of the 144a Reg S tranche, pitched to qualified institutional buyers in the international market. Banamex and Banorte are handling sales to Mexican retail. Danel, who has been meeting with investors in Mexico, Brazil and Europe, says the price range has already been revised upwards from 28 to 35 pesos per share. An equity banker away from the deal says the price adjustment indicates pent up demand for a name in a sector and country that has scarcity appeal. Mexico has logged just one equity deal so far this year, a $217.17 million follow-on offering for steel manufacturer Grupo Simec, compared to Brazil’s 19 deals totaling $6.26 billion, according to Dealogic. This is the first equity offer for a Latin American microfinance institution, but not the first from emerging markets. Indonesia’s Bank Rakyat raised $480 million in equity in October 2003, through UBS and Bahana Securities.”

SATURDAY, APRIL 20, 2007

Mexican Microfinance Institution Compartamos Makes Strong Market Debut

“MEXICO CITY, April 20 (Reuters) – Shares of small Mexican bank Compartamos, which specializes in lending to mom-and-pop businesses, surged as much as 34 percent in their $407 million stock market debut on Friday. Owners of Compartamos, which means ‘let’s share’ in Spanish, sold about 30 percent of the bank, spokeswoman Luisa del Castillo told Reuters. More than 80 percent of the offer was placed in New York, with the rest on Mexico’s stock exchange, according to a company release. Mexican shares of Compartamos jumped as high as 53.53 pesos after the company priced the offer at 40 pesos per share. In afternoon trading the stock eased back slightly to 52 pesos. Compartamos said it sold 111,572,532 shares, with an over allotment provision of 16,735,880 shares. It was unclear whether banks managing the offer exercised the over allotment, worth about $61 million.”

WEDNESDAY, MAY 2, 2007

The Great Debate: Compartamos’s Flotation: What Does It Mean?

As the news spreads through the microfinance community of Compartamos’s flotation on American and Mexican stock markets as a microfinance bank, the debate over whether this is a good or a bad thing for the industry is underway. Below we quote in full a comment made by Chuck Waterfield on a leading online microfinance discussion group, Microfinance Practice Yahoo Group. Mr. Waterfield, who has more than 20 years of experience in the microfinance industry, moderates the group.

“Personally, I’m stunned by this. I’ve seen this in the works for years now, but still stunned that it has really happened. Compartamos, working in Mexico, has created a very large operation. They work currently with 600,000 clients. They have kept their interest rates at over 100% for many years (effective interest rate is currently 105%, as stated on their own website). This is startlingly high to people inside of microfinance as well as outside of microfinance. They have gotten very profitable. For the last several years, they have generated an ROE of over 50%. “Invest $100,000 and make $50,000 in return after one year.” You can see their financials at www.themix.org. As they reached profitability, their interest rates did not come down. They continued to keep them high and generate high profits. Last year they made $57 million in profits. I’ve watched them over the years. I have worked in their offices, but that has been some years ago. Friday they went ‘public’. The board and key staff members have become multi-millionaires (valued in US dollars). They hold a considerable number of shares. 30% of the total Compartamos shares were sold on the market starting Friday. Details are in the Reuters news article below. This is a non-profit institution started with grants. They got the first grant ever awarded by CGAP, $1M in 1997. They have gotten support from numerous donors and networks. They now are generating extremely high profits that now, as a publicly held institution, go to their share-holding board and staff and to their shareholders. Is this the future of microfinance? Is this where some other MFIs have already gone, and where other MFIs are hoping to go? Is this the ‘solution to poverty’? Do the ‘benefits’ of this market-based approach outweigh any potential costs of such intentional and blatant moves that will inevitably draw the attention of the public? Will these actions cause at least some people concern about how the “deeds” of microfinance more-and-more appear to contradict the “words” we say? Will microfinance become the home of the profit-maximizing investors instead of the area that donors and non-profits use to effect beneficial economic and social change? Think carefully about this subject. I strongly believe it is the most important current issue in microfinance. I believe it has been for years (as anyone who has attended my courses knows). I think it is time we stop avoiding this issue. I think we need to openly discuss this. I don’t believe it is necessary to ‘pick on Compartamos’. I think we should be looking at the bigger ‘philosophical’ picture, of where microfinance is going. I think this is an essential issue for us to clarify. The world now knows about microfinance. The world will soon know about the ‘complexities’ of microfinance. What will you say when people start to ask you about these issues?”
was government owned. Perhaps it is for this reason that the Compartamos public offering has aroused more intra-industry debate; Compartamos is a child of the microfinance movement with the sole purpose so far of dealing in the microfinance sector, and is relatively young in doing so. That it turns such a large profit and has chosen to become a publicly listed and no doubt widely traded company in a relatively short time has come as a shock to many in the industry. If the USD 57 million profit made by Compartamos in 2006 tells the industry anything it is that microfinance in Mexico, and perhaps Latin America as a whole, is a lucrative business. This profit signal should act as a strong incentive for further investment in the region and an increasing number of start-ups. The only thing which will reduce usurious interest rates in the long run, which skeptics and pro-market microfinancers alike fret over, is greater competition and choice for clients. The greater accountability which publicly listed microfinance firms will face is also a boon. Also, much of the microfinance industry suffers from a dearth of high quality management. Under the spotlight of public scrutiny this should begin to change when the client becomes the prime focus.

MAY 15, 2007

’Microfinance Practice’ Online Discussion Group Continues to Debate Compartamos’s Flotation: Some Clarification?

Below is a further extract from further discussion in which the aforementioned Mr. Waterfield answers a question about who benefits from the Compartamos deal:

“Here is the way I understand this. Compartamos was a privately held for-profit for the past several years (after starting as an NGO). The small pool of existing shareholders in the for-profit had put in a relatively small amount of money, as can be seen in their audited financial statements at: http://www.mixmarket.org/en/demand/demand.show.proflie.asp?token=&t=237 Compartamos grew through years of consistently very high interest rates (annual APR > 100%) and very high annual reinvested profits (annual ROE of > 50%). They then went public with an IPO, selling EXISTING shares of stock, i.e. cashing out some of what they held. This brought in new shareholders, but brought in no additional funds for expansion. If they had issued NEW stock, they would have new resources to expand. Instead, they sold EXISTING stock, 30% of existing stock. This was sold for over US$400 million according to Reuters. None of this US$400 million went into Banco Compartamos. Given this was sale of EXISTING stock, all this money went outside, to the small group of shareholders—two dozen individuals, ACCION’s Gateway Fund, IFC, and a bit to Compartamos-the-parent-NGO. Those same entities still hold 70% of the remaining shares, with a market value of somewhere around US$1.5 billion dollars (all the shares have a value of somewhere over US$2 billion). The total equity of Compartamos at the end of 2006 was approximately US$120 million, so the wealth of the original shareholders is significantly greater as a result of the IPO. As I have pointed out before, this is a very significant amount of return going to stockholders, something not ever done in microfinance to my knowledge. It reflects how the business world sometimes works, but it does not reflect how microfinance has been done for the past 25 years. This is why I am encouraging us in the microfinance industry to dialogue on the implications of this recent event. Although a lot of private discussion has been taking place the past four weeks, there has been very, very little public discussion. I do strongly urge you to consider ways in which we can talk about the issues and implications this event has for microfinance. Some efforts to set up ways for us to publicly dialogue on these issues are currently underway, and I hope to see them soon announced. In the meantime, I encourage you to study the data, discuss this ‘case study’ with your colleagues, and think about what ramifications — small or large — it might hold for the industry.”

GUEST EDITORIAL

The Case for Microfinance Loan Pool Securitizations

By Rupert Ayton

The idea of micro-loan pool securitization has been bouncing around microfinance for years. Its application has been stymied by knowledge and expertise limitations. Yet securitization may be the middle ground uniting the conflicting strategic perspectives of microfinance’s practitioners, ensuring the long term viability of microfinance’s social promise.

The conflicting microfinance perspectives are commercialization versus preservation of the charitable aspect of microfinance. The debate between the two stems from the enthusiasm for scaling up microfinance and the large amounts of capital that will require—more capital than charity can provide. The concern is that capital in the form of private equity is not a contract like a loan, yet ultimately shareholders do want to be paid. The timing and size of that desire may conflict with the long-term mission of the MFI.

The wants of MFI equity ownership and mission can be balanced if the sold equity has a liquidity event built in (put option); is not a controlling share, as in the case of Compartamos’s recent public offering, or is a non-voting share, as in the case of ShoreBank’s capitalization. In these latter instances, the outside shareholders lack the influence necessary to actively promote mission change from the outside. But these are rare cases.

The conundrum for MFIs is that equity is the necessary capital cushion that absorbs losses. That cushion attracts creditors, including depositors, who typically provide most of the low-cost working capital for efficient lenders, MFIs included. The alternative to finding a mission-balanced structure for the equity cushion is transferring losses directly to investors. That’s where securitization comes in.

With securitization, an MFI sells the contractual loan repayments of its loan portfolio—the loan pool—to investors. It removes the loans from its balance sheet and therefore removes the need for most of the capital cushion typically associated with the loans. Securitization is invisible to the MFI clients, and the MFI earns a fee similar to the net interest margin it would have earned had it kept the loans on its balance sheet.

Securitization takes the loan principal and interest payments, subtracts the fees paid to the MFI and passes the remaining money on to non-risk and risk investors in the form of a security. The non-risk investors receive the principal portion of the payments plus a fraction of the interest until their security is fully paid off. The risk investors absorb defaults then receive the remaining portion of the interest and principle payments. Usually risk investors overestimate defaults and earn a much higher “near equity” return.

Loan pool securitization allows for- and non-profit MFIs to access investor capital and create loss cushions without the negatives associated with selling ownership to outside investors. The key to attracting risk capital in this manner is developing an understanding of the complex risk dynamics of microfinance loan portfolios, and the microfinance sector needs to retain far more knowledge in risk analysis and database expertise than it has exhibited so far.

Author, Rupert Ayton, is the founder of the Center for the Development of Social Finance, a 501(c)(3) research and education organization.

WHO’S WHO IN MICROCAPITAL

ICICI Bank, India
COMMERCIAL BANK, MICROFINANCE PLAYER

ICICI Bank is a subsidiary of the Industrial Credit and Investment Corporation of India Limited (ICICI Ltd), a development financial institution established in 1955 by the World Bank, the Government of India, and representatives of Indian industry. ICICI Bank was promoted in 1994 as the banking division of ICICI Ltd and is now the second largest bank in India. In March 2007, the bank reported total assets of USD 79bn and currently has 950 branches in India as well as a presence in 18 different countries. In addition to microfinance, the company operates in corporate finance, commercial banking, investment banking, asset management and other areas.

Mr. K. Vaman Kamath is managing director and CEO. He graduated in engineering from Karnataka Regional Education College (KREC) and received an MBA from the Indian Institute of Management, Ahmedabad (IIM-A). He began his career with ICICI Ltd in 1971 in project finance and in 1988 joined the Asian Development Bank in Manila in the Private Sector Department before returning to ICICI as MD and CEO in 1996.

Joint managing director Ms. Kalpana Morparia heads the bank’s corporate centre, responsible for corporate communications, audit functions and risk compliance among other areas. Ms. Morparia graduated in law from Mumbai University before joining ICICI as senior legal officer in 1975. She became general manager in 1996 and then senior general manager in 1998 before being appointed executive director in 2001. Ms. Morparia is also the company’s official spokesperson.

Dr. Nachiket Mor is deputy managing director responsible for government banking, agricultural, rural and micro-banking. Dr. Mor is a Yale World Fellow (2004) and a physics graduate from Mumbai University. He also has a master’s degree in management from IIM-A and a PhD in Economics from the University of Pennsylvania. He joined ICICI in 1987, working in corporate planning, project finance and the treasury. He is also a board member for CARE USA and the International Food Policy Research Institute (IFPRI).

Ms. Chanda Kochhar is also a deputy managing director, heading up international banking and corporate banking. She received her undergraduate degree from Jahid College and an MBA from Jamnalal Bajaj Institute for Management Studies, Mumbai. Ms. Kochhar joined ICICI as a management trainee in 1984, working in project appraisal and monitoring. She became assistant general manager in 1994 and deputy general manager in 1996. After heading the ‘major clients group,’ she became executive director in 2001, heading retail business before being appointed deputy managing director in 2006.

The final member of the management team is executive director Mr. V. Vaidyanathan. Mr. Vaidyanathan graduated from Birla Institute of Technology and Harvard Business School (HBS), completing the HBS Advanced Management Programme. He joined ICICI in 2000 with 10 years of experience from Citibank India’s consumer business.

The Board of Directors is completed by another 12 members. Mr. Narayanar Vaghul had been Chairman of the Board since 1985. Mr. Vaghul has a bachelor’s of commerce in banking from Madras University and has chaired committees and task forces for the government of India as well as the Reserve Bank of India. He was also a member of a task force established by the World Bank president in 1999 to review financial policies in the wake of the Asian financial crisis. He is a trustee for the GIVE Foundation and sits on the board of Air India among other companies.

Mr. Sridar A. Iyengar is also a director for Infosys Technologies Ltd and was previously a partner in charge of KPMG’s ‘emerging business practice’ department. He has a bachelor’s of commerce from the University of Kolkata and attended Executive Management at the Stern School of Business at New York University. Mr. Iyengar was CEO of KPMG’s India operations from 1997 to 2000.

Mr. Lakshmi N. Mittal is founder, CEO and Chairman of the Board of Mittal Steel. He sits on the advisory board for the Kellogg School of Management in the USA, and the World Economic Forum’s International Business Council. He has been chosen to receive the 2007 Dwight D. Eisenhower Global Leadershp Award.

Mr. Narendra Murkumbi graduated in 1994 from IIM-A and is managing director of Shree Renuka Sugars Ltd as well as being a director of Murkumbi Bioagro Private Ltd.

Mr. Anupam Puri has a BA in economics from St. Stephen’s College, Delhi University and a master’s degree from Oxford University in the UK. He has been director for Dr. Reddy’s Laboratories Ltd since 2002 after retiring from McKinsey & Company, a management consultancy firm, in 2000. Mr. Puri has also worked as a consultant for General Electric’s ‘Centre for Advanced Studies.’

Mr. Vinod Rai is secretary for the financial sector in India’s Ministry of Finance. He has a BA in economics from Hindu College, University of Delhi, an MA in economics from the Delhi School of Economics and a master’s degree in public administration from Harvard.

Mr. P.M. Sinha graduated from the Sloan School of Management, Massachusetts Institute of Technology (MIT). He started as a management trainee with ESSO Standard Eastern in India and went on to join Unilever before becoming president for Pepsi Cola International in South Asia. Since retiring in 2002, Mr. Sinha has sat on the board for Wipro Ltd, an IT firm, and Lafarge India Ltd, a building materials firm among other organizations.

Prof. Marti G. Subrahmanyan works at the Stern School of Management at New York University. He is also co-editor of the Review of Derivatives Research and a graduate of the Indian Institute of Technology, Madras (IIT) as well as IIM-A and MIT.

Mr. V. Prem Watsa is also a graduate from IIT in Madras and has an MBA from the University of Western Ontario. He began his career with the Confederation Life Insurance Company and was founder of Hamblin Watsa Investment Counsel Ltd, now owned by Fairfax. Other board members include Mr. T.S. Vijayan, Mr. M.K. Sharma and Mr. R.K. Joshi.
MICROCAPITAL EQUITY REPORT

2007 STARTS STRONG

In the first four months of 2007, nineteen separate equity deals for shareholder capital were reported by the CGAP-MIX Capital Markets Update. Twelve of these were investments into microbanks and seven were into funding vehicles that invest in shares in microbanks. The beginning of 2007 saw a number of landmark transactions in international microfinance equity investing and the table below provides a summary of the equity deals reported in this period.

Banco Compartamos, the Mexican powerhouse microbank was the only organization to make a public offering in the period (April 30th), listing 30% of its equity, worth USD 467mn, on stock markets in the USA and Mexico. Compartamos reported a gross loan portfolio of USD 275,481,210 at year end 2006 and turned a profit of USD 57mn. Shares sold were privately owned by 18 individuals including the organization's co-founders, in addition to ACCION Gateway Fund LLC; International Financial Corporation (IFC) and Compartamos AC, a Mexican NGO. New shares were not issued by Compartamos. This floatation gives Compartamos a valuation of around USD 1.35bn, or just under 5 times the value of its loan book. This is a handsome price, especially since the offering did not grow the balance sheet.

The offering is the third ever on a public market by a microbank, but Compartamos is by far the most significant, not only in its unprecedented size, but also because of its trading on large exchanges. This is the most important transaction in the history of microfinance investment, supplanting TIAA-CREF’s buying a USD 100mn share in ProCredit at the end of 2006.

Even with this huge show of force in the capital markets, Compartamos still lags far behind industry frontrunner ProCredit Holding of Germany, a USD 2.5bn microbank conglomerate operating in 19 countries, many of which it dominates. Nor has Compartamos entered the elite league of the Big Bangladeshi Three – ASA, BRAC, Grameen – all of which have close to a billion in assets and millions of clients.

In March, SKS Microfinance, a fast growing Indian MFI with 30 new branches and 60,000 new members per month, reported a USD 11.2mn equity investment. The investment was lead by Sequoia Capital, a US-based private equity fund, with other stakeholders including the Unitus equity fund. Sequoia has previously provided venture capital to Google, Yahoo and Apple. The SKS loan portfolio is worth the equivalent of over USD 60mn, the third largest of Indian MFIs (behind SHARE Microfin and Spandana) according to the MIX Market, the microfinance information clearinghouse. SKS also serves the third largest number of MFI borrowers in India, at over half a million. Investors seek to cash out within three to five years. In May, Citibank committed over USD 40mn in debt financing to SKS as microfinance continues to be flush with debt for the top performing microbanks that seek to increase leverage.

No sooner had the SKS investment been labeled the largest private equity microfinance investment ever in India when SHARE Microfin announced in May a USD 27mn private placement with Legatum and Aavishkaar Goodwell. The race is on.

The success of the Compartamos floatation and the size of the SKS and SHARE private placements herald the beginning of larger private investment into microbanks as investors now have a clear line of sight towards an exit. January saw the Inter-American Development Bank’s “Multilateral Investment

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EQUITY INVESTING ACTIVITY IN MICROFINANCE, JANUARY-APRIL 2007

<table>
<thead>
<tr>
<th>EQUITY BOUGHT IN INVESTMENT FUNDS/VEHICLES</th>
<th>Investee Organization</th>
<th>Investor Organization</th>
<th>Value (% or USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MicroVest One LP, USA</td>
<td>Harnassus Equity Income Fund</td>
<td>USD 500,000 2yr note</td>
<td></td>
</tr>
<tr>
<td>Bellwether Microfinance Fund</td>
<td>FMO (Netherlands Development Finance Company)</td>
<td>USD 2.4mm</td>
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<tr>
<td>MicroVest One LP, USA</td>
<td>Meritas Jantzi Social Index Fund, Canada</td>
<td>USD 300,000 note</td>
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<tr>
<td>BBVA Codespa Microfinanzas</td>
<td>Banco Tribu Vizcaya Argentaria (BBVA)</td>
<td>USD 2 million seed funds</td>
<td></td>
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<tr>
<td>SNS Institutional Microfinance Fund, Netherlands</td>
<td>SNS Asset Management</td>
<td>USD 135mn (target size)</td>
<td></td>
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<tr>
<td>Microfinance Initiative for Asia</td>
<td>KIW &amp; IFC</td>
<td>USD 1bn over 3yrs</td>
<td></td>
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<tr>
<td>Global Partnerships Fund</td>
<td>GP &amp; OPIC &amp; Inter American Dev Bank &amp; responsibility</td>
<td>USD 8.5mm</td>
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<tr>
<th>EQUITY BOUGHT IN MICROBANKS</th>
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<th>Value (% or USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ixe Grupo financiero, Mexico</td>
<td>IFC</td>
<td>USD 700mn (19%)</td>
<td></td>
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<tr>
<td>Acces Finance Madagascar S.A</td>
<td>Triodos-Doen</td>
<td>USD 462,000</td>
<td></td>
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<tr>
<td>FIE, Bolivia</td>
<td>Incofin</td>
<td>USD 1.4mm (10%)</td>
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<tr>
<td>MICOH-IN, Uruguay</td>
<td>Andean Development Corporation (CAF)</td>
<td>USD 200,000</td>
<td></td>
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<tr>
<td>MicroCred, Mexico</td>
<td>IFC &amp; CAF</td>
<td>15% &amp; 9%</td>
<td></td>
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<tr>
<td>Compartamos, Mexico</td>
<td>IFCO</td>
<td>30% (USD 407mn)</td>
<td></td>
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<tr>
<td>SKS Microfinance, India</td>
<td>Lead by Sequoia and Unitus</td>
<td>USD 11.5mm</td>
<td></td>
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<tr>
<td>IMEC, Senegal</td>
<td>Oikocredit</td>
<td>USD 650,400</td>
<td></td>
</tr>
<tr>
<td>Fundacion Jose Niborowski, Nicaragua</td>
<td>Hivos-Triodos Fund</td>
<td>USD 300,000</td>
<td></td>
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<tr>
<td>Cambodian Entrepreneur Building ltd</td>
<td>Triodos Fair Share Fund</td>
<td>USD 1mm</td>
<td></td>
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<tr>
<td>ParaLife, Mexico</td>
<td>Multilateral Investment Fund</td>
<td>USD 3mn in preferred shares</td>
<td></td>
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<tr>
<td>Shore Bank &amp; Shore Bank Pacific</td>
<td>TIAA-CFER pension fund</td>
<td>USD 22mn certificate of deposits</td>
<td></td>
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</tbody>
</table>
Fund” (MIF) invest USD 3mn with Rolf Huppi to found Paralife, Mexico, a new microinsurance venture. Huppi is the former CEO of Zurich Financial Services. The new organization, with headquarters in Zurich, will include a reinsurance vehicle and will distribute microinsurance through partnerships with local organizations in Mexico. The deal, which also received support from the International Finance Corporation (IFC), is largely funded by quasi-public organizations.

The same period has also seen some large equity investments into microfinance investment vehicles. In January, Banco Bilbao Vizcaya Argentaria (BBVA), a Spanish financial institution which serves 35mn customers in 32 countries, established a microfinance-focused hedge fund, BBVA Codespa Microfinanzes, with seed funds of USD 27.2mn. BBVA has partnered with Fundacion Codespa, the Spanish international development foundation, and BlueOrchard, a Swiss asset manager that leads the field in microfinance investing. The project lends to MFIs in Latin America, casting a broad net for lenders with a wide range of regulatory status, including NGOs, cooperatives and finance companies. This deal was later accompanied by a USD 272mn equivalent investment by BBVA in a non-profit microfinance foundation, working through partnerships with MFIs including Caja Nor and Caja Sur in Peru, and Corporacion Mundial de la Mujer in Colombia; organizations with loan portfolios of less than USD 30mn as reported at the end of 2005.

This activity by BBVA is noteworthy for several reasons. First, the amount of capital puts it immediately into the ranks of the top 10 largest microfinance funds. Also, the structure of the project blends business and charity consistent with the opportunities offered by microfinance investing. There have been other significant launches of microfinance investment vehicles in this period, notably the SNS Institutional Microfinance Fund in the Netherlands, launched by SNS Asset Management with a target size of USD 135mn. SNS will be working in partnership with US investment bank Developing World Markets (DWM) and the advisor TripleJump. In May, BlueOrchard Finance and investment bank Morgan Stanley announced a USD 108mn bond backed by loans issued to MFIs, which will be given a credit rating by Standard & Poor.

The “Microfinance Initiative for Asia” announced by KfW Development Bank, run by the German Ministry for Economic Development and Cooperation and the IFC, the private sector arm of the World Bank, committed a huge USD 1bn over three years to support MFIs with loans, equity and “adequately structured risk capital.” The initiative aims investments at “first class” MFIs, those with the most promising futures. From this group of stars, will KfW and the IFC pick the next challenger for the microbank throne held by ProCredit Holding?

With hedge funds now searching microfinance for 20-30% returns, the days of finding easy value in microfinance equity are over. The increasing competition is a welcome development. ♦♦♦