MicroCapital Monitor

THE CANDID VOICE FOR MICROFINANCE INVESTMENT

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MICROCAPITAL BRIEFS | TOP STORIES

Indian Government Puts Up $250m

The Indian government will be establishing two new microfinance funds, the Financial Inclusion Fund and the Financial Inclusion Technology Fund, that will be worth Rs 5 billion (USD 127 million) each. The former will be set up with the National Bank for Agriculture and Rural Development (NABARD). The initial funding for each is to be met by the Central Government, the Reserve Bank of India (RBI) and NABARD. The Indian Government established the Financial Inclusion Committee in June 2006, under the chairmanship of Dr C. Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister.

eBay Launches MicroPlace

This month saw the launch of eBay's most significant effort in microfinance since the eBay private fortune (the Omidyar Network, named after the eBay founder) donated USD 100 million to the Tufts University endowment fund (reported by this newspaper on November 4, 2005). MicroPlace is a web-based service that retails notes offered by microbanks to the general public. In the Who's Who section of this issue, MicroCapital talks to Tracey Pettengill Turner, Founder and General Manager of MicroPlace, and Shari Berenbach, Executive Director of the Calvert Foundation, the principle supplier of microfinance notes. Enjoy the interviews!

The Data Dearth

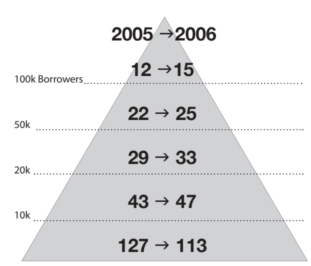
Over the past month, this newspaper has been quoted by two major financial media outlets, Dow Jones MarketWatch of New York and the Financial Times of London. These publications, like everyone else, struggle to understand our industry due to the lack of good data. This month, we provide an overview of the most comprehensive studies of the global situation in our Paper Wrap Up section within. Thank you to everyone who is working hard to produce quality data.

Mr Yunus Wants More World Bank

Nobel laureate Muhammad Yunus is criticizing the World Bank (WB) after a meeting with WB President Robert Zoellick at the Grameen Bank's Headquarters in Mirpur. He believes the WB has a shameful record on poverty. This newspaper agrees! However, Mr. Yunus advocates more WB microbanking activity, not less. He stated that the WB lends USD 20 billion a year on average, but less than 1% for microcredit, which should be increased to at least 5%. "If you think microcredit is helpful to poor people, then why don't you increase funding for it?" he asks. Since the Nobel award, Mr Yunus has hugely increased his public advocacy for government involvement in microlending despite the overwhelming evidence that such involvement hurts the poor and increases graft. Those who study the issue agree: governments and quasi-governmental organizations like the WB ought enable microfinance, not participate in it. Yet, as we have reported again and again, the Grameen Bank is currently in the process of setting up lending organizations in partnership with governments all over the world. Pictures in local newspapers of Grameen Bank representatives standing next to politicians widely believed corrupt damages Mr Yunus's mission. What is so confounding about Mr Yunus is that he has created so many massively successful businesses, businesses that do so much to increase prosperity. The fact that corrupt politicians worldwide are lent the good Grameen name to whitewash their image and distort microfinance markets is maddening. ♦♦♦

LATIN AMERICAN GROWTH TRENDS

MFI'S BY NUMBER OF BORROWERS



MF INDICATORS - PAGE 11

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

MICROCAPITAL BRIEFS

ACCION Invests in Lok Capital

ACCION International's Gateway Microfinance Investment Vehicles Fund (GMIV) invested in Lok Capital, bringing its total resources from USD 12 million to USD 14.5 million. GMIV is an investment fund created by ACCION International in 2007. ACCION International is a private, nonprofit microfinance organization founded in 1961. In 2006, its partners maintained an active loan portfolio of USD 2.03 billion with 122% growth in new clients since the previous year. The annual report also included assets of USD 51.1 million and net revenue of USD 21.1 million. Lok Capital is a private investment fund incorporated in Mauritius in 2006 that pioneers medium- and long-term equity investments in Indian microfinance institutions (MFIs). It plans to use its now USD 14.5 million venture fund to make approximately twenty investments over the next four to five years. It has one active investment worth USD 375,000 as of 2006. Lok Advisory Services (LAS) provides investment advice to the Fund and is based in New Delhi. The Lok Capital Group is directed by Rajiv Lall and controlled by the Lok Foundation, a nonprofit US-registered public charity. November 19. 2007

Indian State Sponsors Smartcards

The state government of Andhra Pradesh in India has proposed to roll out Smartcard technology to a further 3 million rural people in 8 districts in the state, giving them access to a bank account for the first time. The proposal comes after the technology was used successfully in a pilot scheme to organize payments from the state's Social Security Pension Scheme and the Andhra Pradesh Rural Employment Guarantee Scheme (APREGS), which provides at least 100 days of guaranteed wage employment per year to every household whose adult members volunteer to do unskilled manual work. Partners in the project include the State Bank of India, State Bank of Hyderabad, Andhra Bank, Canara Bank, Union Bank of India and Axis Bank. The banks will appoint a business correspondent in each village to provide alternative branch-based banking services to beneficiaries, who will be issued a zero-balance savings bank account. The business correspondent will be provided point of sale equipment, which may be a palmtop, hand-held recorder or mobile phone-based device, as well as a printer and a biometric identification tool. November 16. 2007

Kenya Women Finance Trust Launches Funeral Plan

The Kenya Women Finance Trust (KWFT) launched Kinga Ya Jamii, a "last-expense" or funeral insurance product. Its primary purpose is to enable KWFT's clients and their families to offset funeral expenses. Founded in 1982, KWFT is led by CEO Dr. Jennifer Riria and offers capital and consumer loans for groups of borrowers, or Kiwas, with repayment schedules of nine to twelve months. As of 2006 it has 85,555 active borrowers, a total loan portfolio of USD 32.7 million, assets of USD 52.1 million, a debt to equity ratio of 273 percent and return on assets (ROA) of 4.37 percent. Its primary network is Women's World Banking (WWB). It received a grade of B+ in MicroRate's February 2007 evaluation. November 15. 2007

Unity Bank of Nigeria to Set Up 13 Microlenders

Unity Bank Plc., a commercial financial institution with 215 branches in Nigeria, has finalized arrangements to establish 13 microfinance institutions (MFIs). The bank will use its subsidiaries BON Trustees Ltd. and First Venture Ltd. to launch the proposed MFIs. Unity bears its name from consolidating nine banks: Intercity Bank Plc., Bank of the North Ltd., Tropical Commercial Bank Plc., First Interstate Bank Plc., Pacific Bank Ltd., CentrePoint Bank Plc., Societe Bancaire Nigeria Ltd., NNB International Bank Plc. and New Africa Bank Plc. On consolidation Unity Bank had total assets of USD 927.1 million, total deposits of USD 463.5 million and gross loans of USD 337.1 million. The bank has announced after-tax profits of USD 11.5 million. This represents in increase of 235% over the previous year. November 14. 2007

Tunisian Solidarity Bank Takes Award

Tunisian Solidarity Bank (BTS) earned "Microfinance Bank of the Year" honors during the 2007 African Banker Awards in Washington DC. A total of 15 awards were distributed by African Banker magazine. BTS was established by Tunisian President Ben Ali in December 1997. As of January 2005, BTS had assets of USD 71.2 million with 62% of the bank's total capital of USD 27 million held by the general public. BTS does not currently report to any third party performance evaluator. Based in the UK, African Banker is a quarterly magazine published by IC Publications that covers banking and finance news in Africa. The first issue was presented at the African Development Bank meeting in Shanghai, China, in June 2007. November 14. 2007

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$5m Gift to Opportunity for Child Development

Compassion International, one of the world's largest Christian child development organizations, will invest USD 5 million over the next five years in fellow Christian microfinance institution (MFI) Opportunity International (OI). With this funding Opportunity International will expand its microfinance operations in Ghana, Kenya and Rwanda, offering microloans, savings accounts, insurance and business training to the families of Compassion-sponsored children and other community members. The partnership in Africa between the two organisations began in October 2006 when Compassion International awarded USD 180,000 to OI to open new microfinance operations in three rural areas in Uganda where Compassion-assisted families were concentrated. OI, founded in 1971, claims be to the largest Christian microfinance institution with almost a million clients. November 13. 2007

EBRD Provides $2m Guarantee for Kyrgyz Bai Tushum

The European Bank for Reconstruction and Development (EBRD), a development bank owned by European governments, is providing Bai Tushum Financial Foundation (BTFF) of the Kyrgyz Republic with a USD 2 million guarantee for local currency loans from local banks. This guarantee from the EBRD is the second received by Bai Tushum in as many years. Bai Tushum was established in 2000 by CARITAS, a Swiss nonprofit organization, and ACDI/VOCA, an American private nonprofit organization financed by the US Department of Agriculture and the Swiss Government. In 2001, the MFI became independent. The MFI serves 10,000 clients through four branches. The average loan size is USD 2,460. In 2006, the MFI had USD 15.5 million equivalent in total assets, a return on assets (ROA) of 5.05 percent and a return on equity (ROE) of 14.7 percent. In 2005, international rating company Microfinanza awarded Bai Tushum an "A+" rating, up from its "A" in 2002. November 13. 2007

MicroCred Start Ups in China and Senegal

MicroCred Holding of France has established two new subsidiaries: MicroCred Nanchong in the southwestern Sichuan Province of China and MicroCred Senegal in Dakar. MicroCred Senegal began operating in September and after six weeks in operation opened 800 savings accounts worth USD 71,800. MicroCred Nanchong began operating with an aggregate investment of USD 7.37 million from MicroCred Holding (49% share), the International Finance Corporation (15%), KfW Bankengruppe of Germany (18%) and American International Group (AIG, 18%). Currently, the MFI offers credit loans, secured loans and mortgage loans at a monthly rate of 1.1 percent, but it has yet to acquire the license required to accept deposits. MicroCred Holding is a Paris-based microfinance investment company with the objective to create commercial finance institutions. PlaNet Finance, Société Générale, AXA Bank Belgium and the IFC are the founding shareholders of the company. MicroCred Holding currently has subsidiaries in four countries: Mexico, Madagascar, China and Senegal. November 12. 2007

JPMorgan Launches Social Sector Finance Unit

Following closely on Morgan Stanley's founding of a microfinance team, JPMorgan, a global bank with assets of USD 1.5 trillion, has announced the launch of a Social Sector Finance (SSF) office. The unit's service offering will include capital markets, structured products and principal investments and will pursue a "double bottom line" strategy of both social benefits and financial returns. The establishment of JPMorgan's SSF unit is part of the firm's overall strategy to increase its focus on microfinance. Head of Global Research Nick O'Donohoe is leading the effort, and the new SSF unit will be run by Christina Leijonhufvud. Ms. Leijonhufvud received a master's degree in economics from the London School of Economics and was a former Country Director at the World Bank serving Central Asian Operations. Ms. Leijonhufvud is also associated with Ashoka, a non-profit organization that promotes "social entrepreneurship". November 12. 2007

Are Nigerian Banks Playing Dirty?

The on-line news source allAfrica.com reported as follows: "Worried by the delay in the clearing of cheques through corresponding banks, microfinance banks have enjoined the Central Bank of Nigeria (CBN) to appoint one of them to act as clearing house. Microfinance operators explained that cheque clearing through corresponding banks was one of the factors that hindered the growth of community banks in the country. They pointed out that apart from the fact that commercial banks are their competitors, appointment of one of the big microfinance banks to clear cheques on behalf of others would help to reduce the delay encountered by operators in the process." November 12. 2007

Looking for Some Good TV?

The US Public Broadcasting Service (PBS) program "NOW" covered a story in September 2007 on microfinance entitled "Who's Making Money from Microcredit?" The twenty minute segment explores the financial success of Mexican microfinance institution (MFI) Compartamos and its April 2007 initial public offering (IPO) that generated over USD 400 million for investors. According to a CGAP case study on Compartamos, at the time of the IPO Compartamos shareholders consisted of the original Compartamos NGO (39.2 percent), ACCION Gateway Fund (18.1 percent), IFC (10.6 percent), directors and managers (23.7 percent) and other private Mexican investors (8.5 percent). The original price paid for these shares by investors was in the range of USD 6 million. The PBS show presents different views on this historic transaction quite well and makes for compelling viewing. The show can be seen on the internet. November 9. 2007

Another "Peer to Peer" Funding Website Launches

A Mexican microlending NGO named FIPS has launched "My Electronic Loan Exchange Network (myELEN)" in the Czech Republic. myElen is a web-based investment vehicle through which Czechs can fund microloans in Mexico. This funding can either be an investment earning between 5-10% annually, a no-interest loan where the principal is returned, or a donation. FIPS founded this website through a Czech organization generically named "Microfinance" which states it will include other microlenders beyond just FIPS as part of its program in the future. This effort follows the media frenzy about Kiva.org that provides this same "peer to peer" microfinance funding service, but without the option of earning a return on capital. Kiva.org is now the most popular microfinance website in the world and works with over 50 microlenders around the world managing approximately USD 10 million in assets. November 9. 2007

2006 Microfinance Benchmarks Released by MIX

The Microfinance Information eXchange (MIX) has released its 2006 microfinance institution (MFI) benchmarks. This year's compilation includes performance and financial data from 704 MFIs around the developing world, a 60% increase over the previous year. The benchmarks represent 52 million borrowers with USD 23 billion in loans and 56 million savers with USD 15 billion in deposits. November 8. 2007

AfDevInfo Reports on World Bank Management Changes

The African Development Information Services (AfDevInfo) has published a report that outlines the recent high-level management changes at the World Bank. November 7. 2007

Netherlands FMO to Establish $125m SME Fund in India

The Netherlands Development Finance Company (FMO), a development bank founded by the Dutch government and business community in 1970, plans to establish a USD 125 million fund in India which will finance 10-15 family-owned small and medium-sized enterprises (SMEs). The proposed Banyan Tree Fund will receive a USD 25 million contribution from FMO which will raise the remainder from investors. The European Union has defined a "small enterprise" as an enterprise which employs fewer than 50 people and whose balance-sheet total does not exceed EUR 10 million (USD 14.6 million). A "medium-sized enterprise" is defined as an enterprise which employs fewer than 250 people and whose annual balance-sheet total does not exceed EUR 43 million (USD 62.9 million). FMO has a global portfolio of EUR 3 billion (USD 4.4 billion) and, as of 2006, had EUR 2.3 billion (USD 3.4 billion) in total assets. November 7. 2007

2008 Sustainable Banking Awards Add Prizes

The Financial Times in partnership with IFC, the private sector arm of the World Bank Group, sponsor the FT Sustainable Banking Awards for "triple bottom line banking". Two new categories – Banking at the Bottom of the Pyramid, and Sustainable Investor of the Year – have been added in the third year of the awards. November 7. 2007

MicrofinanceGateway.org Lists Microfinance 98 Jobs

Do you have what it takes to be the Chief Commercial Officer for ACCION International in Cameroon? This and 97 other job listings are now available at the Microfinance Gateway's Microfinance Jobs Marketplace. Listings are available in English, French and Arabic. You may also submit job postings and receive updates to the list by email. November 6. 2007

UPS Grants Totaling $1m to US Charities

United Parcel Service (UPS), a global package delivery service founded in 1907, has created a Centennial Grants Fund in honor of UPS's 100 year anniversary. UPS's fund has issued USD 1 million to three microfinance organizations. ACCION International will receive USD 400,000, Opportunity International will receive USD 390,000 and FINCA International will receive USD 210,000. November 6. 2007

Standard Chartered Bank Suffers Government Caps

Standard Chartered (StanChart) Bank, India's largest international bank, will increase its involvement in microfinance in the coming year, according to the CEO of India operations, Neeraj Swaroop. "The aim is to increase our exposure from a current level of close to Rs 100 crore (USD 25.36 million) to about Rs 500 crore (USD 126.8 million) by December 2008." StanChart Group has developed 35 alliances with MFIs across Asia and Africa. The group has also made a Clinton Global Initiative pledge to channel USD 500 million over five years to MFIs in Africa and Asia. The bank complains that in India its growth is limited due to the cap on the number of branches a foreign bank is legally allowed to open. November 6. 2007

Starlet Natalie Portman Floods News Wires for FINCA

To read the news wires this month, one might think Natalie Portman (of "Star Wars" fame) was the most important player in microfinance. However, it turns out she was just doing a tour of elite US universities. Apple's iTunes and Independent Online Distribution Alliance (IODA), a digital distribution company for the independent music community and one of Fortune magazine's 25 Breakout Companies of 2005, has collaborated with Ms Portman to compile "Big Change: Songs for FINCA." This is the first-ever charity album offered by iTunes. Net proceeds will benefit FINCA's charitable fund. FINCA International, or the Foundation for International Community Assistance, is a non-profit with 21 affiliated institutions around the world including FINCA Afghanistan and FINCA Peru. According to its 2005 Annual Report, FINCA has approximately USD 79.6 million in total assets. November 5. 2007

Micro Finance Bank of Azerbaijan Eyes Mortgages

The Micro Finance Bank of Azerbaijan (MFBA), a commercial bank that was established in 2002 to provide financial services to privately-owned micro- and small enterprises in Azerbaijan, plans to enter the domestic mortgage lending market. The bank does not currently participate in the state mortgage lending program but is taking steps to launch its own mortgage program. MFBA currently has six shareholders: KfW has a 25 percent stake; EBRD, 20 percent; IFC, 20 percent; BSTDB, 20 percent; AccessHolding, 10 percent; and LFS, 5 percent. MFBA has reported significant growth over the past few years. In 2007, the bank's assets rose 100% and totaled USD 120 million as of October 1. November 1. 2007

Citibank and Grameen Expand in China

China Banking Regulatory Commission (CBRC) announced on Tuesday that Citibank and Grameen Trust will be expanding its financial services range in the rural areas. October 31. 2007

AfriCap Offering Successful

AfriCap Microfinance Fund, established in 2001, has closed a second round of investment, raising its capital from USD 14 million to USD 50 million. The Mauritius-based firm converted into a private equity investment company and changed its name to AfriCap Microfinance Investment Company. Over the past six years, AfriCap has invested in 13 microfinance institutions (MFIs) across Africa. The two exits generated by AfriCap since its founding averaged a return (IRR) of over 30 percent. This new offering therefore received strong support from investors, particularly from initial shareholders who provided approximately 35% of AfriCap's new capital. These include Calmeadow, a Canadian non-profit organization; AfriCap Sweden, a private-sector consortium founded for the purpose of investing in AfriCap; ACCIÓN International, a US charity; the European Investment Bank (EIB), the European Union's non-profit, policy-guided financial institution; and the Netherlands Development Finance Company (FMO). New investors included FinFund, NorFund, SwedFund, Nordic MicroCap, BlueOrchard Private Equity and the Gray Ghost

Fund. Some early investors in the fund opted to exit with a 14% return, including Société Belge Pour Le Développement International, the DOEN Foundation, CORDAID and the Argridius Foundation. October 30. 2007

SPEED Ghana Launches National Ratings Service

Support Programme for Enterprise Employment and Development (SPEED), a Ghanian NGO that provides technical assistance and development services to microfinance institutions (MFIs), has introduced a ratings service for smaller financial institutions in Ghana. The initiative has been supported by GTZ, the international aid agency owned by the German federal government, and DANIDA, the Danish International Development Agency. The ratings service will examine the activities of smaller financial institutions that provide microfinance such as rural and community banks, credit unions, financial NGOs, Susu collectors and savings and credit cooperatives (SACCOs). SPEED was launched in 2006 with the help of GTZ and DANIDA has three main business areas: the Business Development Service, Technical Assistance and the SPEED Funding Facility Limited, which is a wholesale financing operation. It is unusual to mix a rating service with consulting and funding due to potential conflicts of interest. October 30. 2007

PNG Microfinance Ltd Markets with Radio Program

PNG Microfinance Ltd (PML) of Papua New Guinea (PNG), has begun to air a weekly radio program to inform the public of its services. It will feature a format of interviews with management and staff. Of the 5.8 million people in Papua New Guinea, 80% live in rural areas where radio dominates. PML was established in 2004 and is sponsored by PNG Sustainable Development Program Ltd., with the International Finance Corporation (IFC) and Bank South Pacific (BSP), the largest commercial bank in PNG, being the two other lead shareholders. According to the MixMarket, PML has a gross loan portfolio of over USD 2 million, total assets of USD 10.3 million and a debt to equity ratio of 456%. Its return on assets is -19.71%. According to the local paper, The National, the MFI had 120,000 depositors at the end of September 2007. October 29. 2007

Morocco Gets $697m – $46.2m to JAIDA

Morocco and the Millennium Challenge Corporation (MCC), a US government corporation designed to reduce poverty in the world's poorest countries, have signed a five-year USD 697.5 million Millennium Challenge Compact to encourage sustainable economic growth in the Kingdom of Morocco. The compact, which officially began August 9, is the largest of its kind to date. MCC will supply USD 118 million per year for five years to various initiatives spanning multiple sectors in the country. As part of the compact, USD 46.2 million will be given to the Financial Services Project, a program intended to increase the supply and decrease the costs of financial services, particularly for microfinance institutions. Much of the MCC's contribution will be given to JAIDA, a non-bank financial institution which provides debt funding to Moroccan microfinance institutions. JAIDA was established in 2006 by an alphabet soup of European development agencies and government-sponsored development banks. October 25. 2007

Uganda Microfinance Scandals Deepen

The reputation of microfinance institutions (MFIs) in Uganda took another turn for the worse following the police investigation into four savings and co-operative credit organizations (SACCOs) suspected of fraud. The investigation had already prompted a downturn in public confidence, with the Grand Comedy theater in the country satirising the "fraudulent" microfinance firms on stage. James Abola, a business consultant writing for The Daily Monitor suggests that the problem could lie with the SACCOs specifically, rather than with MFIs. In 2003 the government passed the Microfinance Deposit Taking Institutions Act, which only allows those MFIs that are licensed by the Bank of Uganda to take deposits from the public and then on-lend to clients. Only four organizations, according to Mr. Abola, are currently operating under this Act. SACCOs, however can get round this rule, as they are allowed to take deposits from their members and then lend this to other members of the SACCO. They only have to be registered with the Registrar of Savings and Credit Cooperative Societies and are not regulated by the Bank of Uganda. October 25. 2007

$300b in Worldwide Remittances

Migrant workers sent home more than USD 300 billion to their families in developing countries in 2006, according to a study by the International Fund for Agricultural Development (IFAD) and the Inter-American Development Bank (IDB). October 24. 2007

IFMR Trust of India Announces $40m Fund

The Institute for Financial Management and Research (IFMR) Trust of India is to establish a USD 40 million investment vehicle called the Microfinance Classic Fund to provide funding to early-stage microfinance institutions (MFIs). ICICI Bank, India's second-largest bank with total assets of USD 79 billion, is supporting the IFMR Trust with the initiative. The IFMR Trust, which is affiliated with the Institute for Financial Management and Research Business School in Chennai, was launched in October 2006. The Classic Fund is being launched simultaneously with the IFMR Trust's USD 100 million Network Enterprise Fund investing in "priority sectors" such as food processing, dairy, rural tourism, waste management and skills training. October 23. 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".

PAPER WRAP UP

Microfinance Investment Vehicles

By Xavier Reille and Ousa Sananikone, published by Consultative Group toAssist the Poor (CGAP), April 2007, 2 pages, available at http://www.microfinancegateway.org/content/article/detail/40677

The paper, a Consultative Group to Assist the Poor (CGAP) brief, by Xavier Reille and Ousa Sananikone, highlights the growth of foreign capital investment in microfinance, specifically the proliferation and impact of private investment funds. The authors begin by describing two primary players in microfinance investment, international financial institutions (IFIs), which provide seed capital to start-up microfinance institutions (MFIs), and private investment funds known as microfinance investment vehicles (MIVs). IFIs are investment arms of public development agencies. For example, the International Finance Corporation (IFC), a member of the World Bank Group, is considered an IFI. The Netherlands Development Finance company (FMO) is also an IFI. MIVs, on the other hand, draw funds from the private sector. BlueOrchard, an MIV, manages funds that deliver capital from private investors directly to MFIs through loans and other structures. MIVs are, in essence, financial intermediaries that act as distribution channels of private monies.

In the brief, the authors first provide details on the changing MIV market. From 2004 to 2006, IFI microfinance portfolios more than doubled from USD 1 billion to USD 2.3 billion. However, MIV portfolios more than tripled, from USD 600 million to USD 2 billion. In 2005 and 2006, thirty new funds were created. At the time the authors wrote the brief, 74 MIVs existed. MIV portfolios grew at 110 percent per year and consisted of primarily USD and EUR fixed income investments, but also a mix of equity and local currency investments. The authors indicate 47 percent of MIV investors are socially responsible investors or foundations. 36 percent are IFI investors and 17 percent are institutional investors with a double bottom line (expecting both financial and social returns). According to the authors, 86 percent of MIVs manage less than USD 20 million in funds. The average MIV investment in an MFI is just USD 1 million which contrasts with the average IFI's investment of USD 3.1 million. Financial returns from most MIVs are close to US money market rates and range from 2.6 percent to 5.1 percent.

Next, the authors describe the MIV market as "concentrated in many respects." The top 10 MIVs account for 67 percent of total MIV portfolios. A few of the top MIVs are BlueOrchard, with USD 450 million managed, Procredit Holding AG, with USD 390 million managed, and Oikocredit, with USD 270 million managed. 25 percent of all MIV investment is concentrated in 10 MFIs. Furthermore, 81 percent of MIV investments are in Eastern Europe, Central Asia, or Latin America. The authors also explain how competition amongst MIVs has created niche market investment strategies or structures. For example, some funds target smaller MFIs, others offer equity funding, some are country-level, and some funds invest in other funds.

The authors conclude that the rapid increase in foreign private capital is an opportunity and is a positive indicator of investor confidence in the microfinance industry. Yet, growth of MIVs will also create numerous challenges. First, there are a large number of MIVs pursuing a limited number of MFIs. Consolidation is necessary to increase fund efficiency. Second, many MIVs lack transparency and a shared performance standard. Both are critical to the success of acquiring private investment. Finally, the authors believe the microfinance industry should pursue the growing pool of "socially responsible" private investors looking for double bottom line returns, as these investors represent a huge opportunity for growth.

Sustainability of Self-Help Groups in India: Two Analyses

By Jennifer Isern and Robert Peck Christen, et al, published by the Consultative Group to Assist the Poor (CGAP), Occasional Paper No. 12, August 2007, 48 pages, available at http://www.microfinancegateway.org/files/43637_file_OccasionalPaper_12.pdf

This paper reports the findings of two separate studies: one which analyzes the financial sustainability of self-help groups (SHGs) in India and the other which examines whether or not the SHG model can be successfully replicated in other areas of the world.

The two analyses draw several significant conclusions, including:

1) Many well-run SHGs are achieving financial sustainability,

2) SHGs reach very poor and marginalized clients, and

3) Well-executed SHGs exhibit very high repayment (over 95 percent in some cases) of loans they receive from commercial banks.

A self-help group is a member-managed collective of typically 10 to 20 poor women that provides financial services to its members. Loans are funded by interest charged to members, loans from banks and other external sources, members' savings and other revenues collected. (SHGs borrow from banks at interest rates of 8 to 12 percent and lend to members at 24 percent.) SHGs are often formed with the assistance of self-help promotional institutions (SHPIs), such as non-government organizations (NGOs), government agencies, banks and microfinance institutions (MFIs). The most distinctive feature of SHGs is that they generally end up borrowing from a commercial bank.

Self-help groups are currently the most common form of microfinance in India. In March 2006, there were 2.23 million SHGs reaching 33 million members. The success of SHGs in the country has lead some to question the sustainability and replicability of this lending model. Yet, little has been published on the financial performance of SHGs.

The Consultative Group to Assist the Poor conducted two separate studies involving nine SHG programs. The first reviews a sample of five well-established institutions representing the main approaches to SHG promotion in India and analyzes and compares the financial sustainability of the approaches. This study covers 150 SHGs. The second study evaluates the operational structure and financial performance of four leading SHG programs and proposes a methodology for designing financially sustainable SHG programs.

The results of the first study are inconclusive with respect to differing approaches to the SHG model. Programs with higher start-up costs have varying strengths — some have better loan repayment, others have higher profitability, etc. The least expensive program to launch has weaker outreach, lower collection and less profitability than other programs, suggesting that "cheaper" programs lose out in the long run.

The second study concludes that SHGs compare favorably to alternative microfinance programs. In order to become truly sustainable, though, banks would need to charge SHGs more to cover long-term support costs. Currently, much of the cost of establishing, equipping and running SHGs are covered by NGOs, donations and government subsidies. CGAP points out that unless external support is provided to community-based financial programs, including SHGs, in a sustainable way and this support is paid for by revenue generated by the programs themselves, they will degrade over time and eventually collapse.

Both of these studies review SHGs that are exceptionally well-managed, rather than taking a random sample of SHGs. The studies are designed to analyze the potential of the SHG model, as opposed to analyzing the current state of SHGs in India. In order to determine the potential for financial viability of SHG programs, it is most relevant to examine the programs that are performing well. If trends in the microfinance industry are any indication, it is likely that the well-run, sustainable programs will grow more rapidly and cause greater impact than inefficient programs.

The following results, therefore, exemplify the current state of the best Indian SHGs and the potential of SHG programs as a whole, but not the current state of the average SHG:

1) Well-executed SHGs can and are reaching financial sustainability. High income from loan portfolios and low operating expenses enable most SHGs to be profitable, even after accounting for all expenses. However, the overall picture is mixed. The returns on assets of some SHGs are very poor (9 percent loss) and others are very strong (7 percent profit).

2) The top SHGs rarely default on external loans owed to financial institutions.

3) In terms of administrative costs, the studies found that SHGs are comparable to other microfinance models. However, these calculations do not take into account the time members spend at meetings or the added risk to which members are subject.

4) There is little evidence of elite capture, domination of resources by a powerful few in the community, which tends to be a problem with other forms of community-based, member-managed finance.

5) Though arrears are high among all SHGs, this does not necessarily translate into high default rates. Some SHGs are quite successful in the eventual collection of loans owed by members and thus are surviving despite high delinquency. This is because, for many poor members, cash flows do not correspond to monthly loan installment schedules, but rather depend on seasonal income such as from agriculture and animal husbandry.

6) Members of SHGs do not often engage in voluntary saving outside of the minimum requirements needed to qualify for loans. This may indicate that members do not consider groups useful for storing surplus money and choose to use other savings mechanisms.

7) Approximately a quarter of SHG members continue to borrow from moneylenders. Among SHGs promoted by NGOs, however, only 2 percent of members use moneylenders for credit.

8) Most of the SHGs in the studies are successful in reaching the most vulnerable people: those who own little or no land, are predominantly illiterate, are from scheduled castes and tribes and who lack access to formal financial services.

These findings paint a primarily optimistic picture of the future of SHGs in India. However, the question of replicability remains largely unanswered. Most SHGs depend on loans from commercial banks, and the majority of banks in India that lend to SHGs are state-owned. Because SHGs began to grow in India on a wide scale only after the government required state banks to support community finance programs, more research is needed before it can be determined if commercial banks would lend to SHGs in the absence of government-imposed quotas.

Taking Stock of Global Microfinance Statistics on Global Assets and Customers

A survey of industry data performed by MicroCapital.

Numerous challenges hinder the spread of accurate information on microfinance. Due to the lack of transparency of many microfinance providers, much information is never publicly disclosed. Much of the information that is reported is obsolete and outdated — often two or more years old. As there is limited and inconsistent regulation of microfinance providers, third party confirmation of data is often not required, and providers have little incentive to verify their own figures. Essentially, there is no standardized system to which all microfinance providers report and from which accurate information can be retrieved. Thus, the task of determining a basic statistic — such as the total amount of assets held by microlenders worldwide — can prove nearly impossible. Calculating this figure requires a worldwide census of microfinance institutions (MFIs), coops, government banks, credit unions, self-help groups, etc. No such census exists. However, MFIs are increasingly reporting their performance data to international databases. This is particularly common among efficient, well-managed programs that are looking to attract investors.

Data reported to the Microfinance Information eXchange (MIX) by microfinance institutions indicates that globally there are approximately USD 22.44 billion in total assets in MFIs (based on data from 817 MFIs, 581 of which reported asset information) and roughly 48.5 million microfinance clients (based on data from 866 MFIs as of November 16, 2007). The MFIs listed on the MIX also reported over USD 23 billion in gross loan portfolio between 2004 and 2006. The Microcredit Summit Campaign estimates that as of 2006, over 3,100 MFIs were providing financial services to more than 113 million poor people worldwide. "Microfinance Through the Next Decade: Visioning the Who, What, Where, When, and How," a paper published in 2006 by the Microcredit Summit Campaign with the support of ACCIÓN International, put the total number of borrowers at 28.8 million and the total loan portfolio at USD 9.14 billion. This paper reported on 378 MFIs. The latest MicroBanking Bulletin, a semiannual report on the microfinance industry published by the MIX, contains information on 200 MFIs from all over the world and reports that the average amount of assets in each of these MFIs in 2005 was USD 10.23 million. Thus, these 200 MFIs had over USD 2 billion in total assets that year.

An Occasional Paper published by CGAP in 2004 estimated that there were over 750 million savings and loan accounts in financial institutions that served clients below the economic level generally reached by commercial banks. CGAP and BlueOrchard have estimated the total demand for microfinance at USD 100 billion. BlueOrchard, a private Swiss company that identifies, monitors and reports on MFIs for current and potential investors, estimates that there are 10,000 MFIs globally. The company figures that only five percent of the microcredit demand is being met.

"The Growth of Commercial Microfinance: 2004-2006," a paper by Elisabeth Rhyne and Brian Busch, reports total global assets of USD 14 billion worldwide (page 10) and also breaks down assets by region. Between 2004 and 2006, total assets of MFIs increased by 453 percent. Total equity grew 326 percent, number of borrowers increased 296 percent and loan portfolio size leaped 463 percent (page 18). The authors project that by 2011, there will be over USD 40 billion in assets and over USD 30 billion in loan portfolios in the microfinance industry (page 14).♦♦♦

UPCOMING EVENTS

Building Financial Systems for the Poor: How Funders Can Make a Difference

November 19 – November 23, 2007, Denpasar, Indonesia

This seminar aims to provide an overview of contemporary microfinance and address state-of-the-art principles and practical recommendations for how donors, investors and policymakers can effectively help build financial systems that serve poor people. Techniques and tools for managing microfinance projects and investments and criteria for evaluating, managing and promoting microfinance projects and investments will also be covered. The cost is USD 1,500. For more information about this program, visit http://cgap.org/direct/training/training.php or contact Natasa Goronja, ngoronja@themfmi.org.

European Microfinance Week 2007

November 27 – November 29, 2007, Luxembourg, Luxembourg

Supported by the Ministry of Foreign Affairs of Luxembourg and the Luxembourg Round Table on Microfinance, the event will to bring together European Microfinance actors working in developing countries, in order to "promote good practices and facilitate synergies among European microfinance actors," "encourage a European strategy on Microfinance in developing countries," and "provide input for the 2008-2009 action plan" for the European Microfinance Platform Annual Meeting. For more information, please contact Laetitia Polis at contact@microfinance-platform.eu, or at +352-29-5858255; or go to: http://www.microfinance-platform.eu/mmp/online/website/news/index_EN.html.

Citi-FT Financial Education Summit 2007

December 6 - December 7, 2007, New Delhi

The Citi Foundation and Financial Times expect next month to host the largest international gathering of financial education experts and advocates ever held. Following previous summits in Hong Kong, Malaysia and South Korea, the Citi-FT Financial Education Summit 2007 in New Delhi will focus on : "Partnerships for Progress and Inclusion." Participants will discuss how to boost financial literacy levels, particularly in under-privileged areas, by tailoring financial education programmes to meet the needs of specific communities; identify best practices in content development and delivery and encourage effective multi-sector partnerships among governments, educational establishments, the private sector and non-profit organisations. Regristration costs USD 450. For scholorhsip information and in-line registration please visit http://www.financialeducationsummit.org/registration.php. More information is available by telephoning +852 2230 5851 or emailing FinEdSummit@ft.com.

Opportunity Finance Network 2007 Conference

December 11 – December 14, 2007, Miami, USA

Sponsored by the Opportunity Finance Network, the goal of this event will be to "focus on creating a high volume financing system through industry innovations and transformations." The organizers expect the attendance of CFDI (Community Development Financial Institutions) and Opportunity Finance practitioners, CFDI Board members, bankers, regulators, foundation staff, religious investors, and investment managers. For more information, please contact Ed Fischer at efischer@opportunityfinance.net or +1 215 320 4306; or go to http://www.opportunityfinance.net/knowledge/conference_resource_center/07default.aspx?id=1524.

Microfinance for the Institutional Investor

January 14 – January 15, 2008, New York, USA

Presented by Financial Research Associates and held at the Affinia Manhattan Hotel, the conference is designed to help institutional investors understand microfinance and recognize its potential "to generate low-risk market-rate returns while alleviating poverty." Speakers from some of the leading players in microfinance—including Citigroup, Morgan Stanley, Lehman Brothers, Unitus and Accion International—will cover such topics as microfinance rating methodology, securitization techniques and portfolio risk reduction strategies. To inquire about speaking or sponsorship opportunities, please contact Christy Tester at +1 704 889 1286 or ctester@frallc.com. For general information, visit: http://www.frallc.com/conference.aspx?ccode=B576.

Global Microfinance Investment Congress

January 21 - January 22, 2008, Paris, France

May 14 - May 16, 2008, New York, USA

Presented by PlaNet Finance, these conferences begin a series aimed at microfinance investors. Topics are to include equity and fixed-income investment opportunities, measuring social performance, microfinance institution ratings, valuation, pricing and others. The

UPCOMING EVENTS (CONTINUED)

cost for the Paris conference is USD 330. For more information, visit www.microfinance-congress.com or contact Mr. Eike Haas at +33 (0) 1 49 21 26 15 or ehaas@planetfinance.org. Pricing for the New York conference begins at USD 795 for those registering before the end of the year. For more information visit www.microfinance-congress.com or call +1 416 927 8200.

International Conference on Microfinance

January 23 - January 25, 2008, Puducherry, India

Sponsored by the Department of Commerce at Pondicheery University, in an effort to provide a forum to develop strategies for using insurance, savings and credit to eradicate poverty. Topics are to include innovations in services and service delivery, regulation and governance of microfinance institutions, financial inclusion and microcredit. Conference fees vary as follows: Rs. 500 for Research Scholar delegates, Rs. 750 for author delebates(author delegates will be provided free lodging and boarding for two nights and three days during the conference), Rs. 1500 for other delagates from Indian organizations, USD 100 for international attendees. For registration forms and further information call +91 0413 2654369, or email icomfi2007@pondiuni.edu.in.

The African Banking Technology Conference

February 19 – February 21, 2008, Nairobi, Kenya
March 13 – March 14, 2008, Lagos, Nigeria

Hosted and organized by AITEC Africa, the event will "provide the region's banking community with in-depth briefings from African and international experts" which will allow attendees to "assess the latest banking technology systems and strategies". To propose a forum presentation, send a brief outline to Sean Moroney at seanm@aitecafrica.com. For more information email info@aitecafrica.com or go to http://new.aitecafrica.com/node/399.

Asia-Pacific Microcredit Summit Campaign 2008

March 4 - March 6, 2008, Islamabad, Pakistan

Hosted by the Pakistan Poverty Alleviation Fund (PPAF). More information about the upcoming summit to follow at http://www.microcreditsummit.org/summit/upcoming.htm.

Cracking the Capital Markets III

March 10 - March 11, 2008, New York, USA

The third ACCION conference on microfinance investment, sponsored by Credit Suisse, will bring together money managers, bankers, institutional and private investors, as well as leaders of hedge funds and rating agencies—many as yet unfamiliar with microfinance—with senior staff of microfinance funds and leading MFIs to learn about the opportunities, challenges and realities of microfinance investment. For more information, please call +1 617 625 7080. ♦♦♦

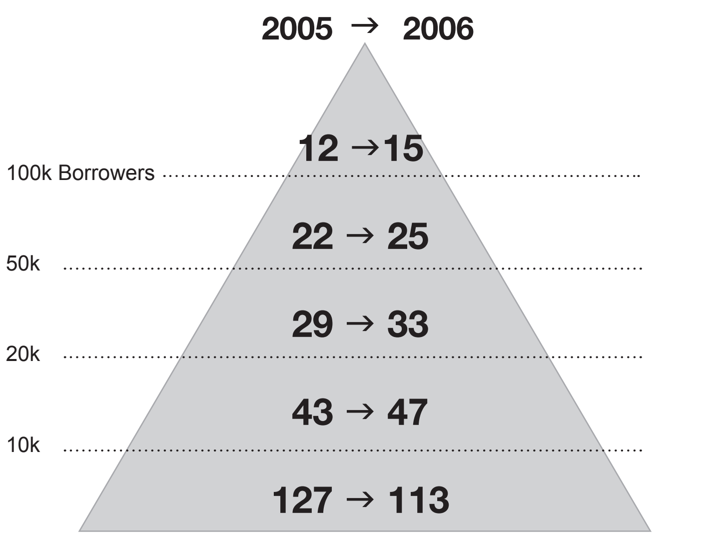
MICROCAPITAL MARKET INDICATORS: LATIN AMERICAN GROWTH TRENDS

20 COUNTRIES | 233 MFIs REPORTING [1]

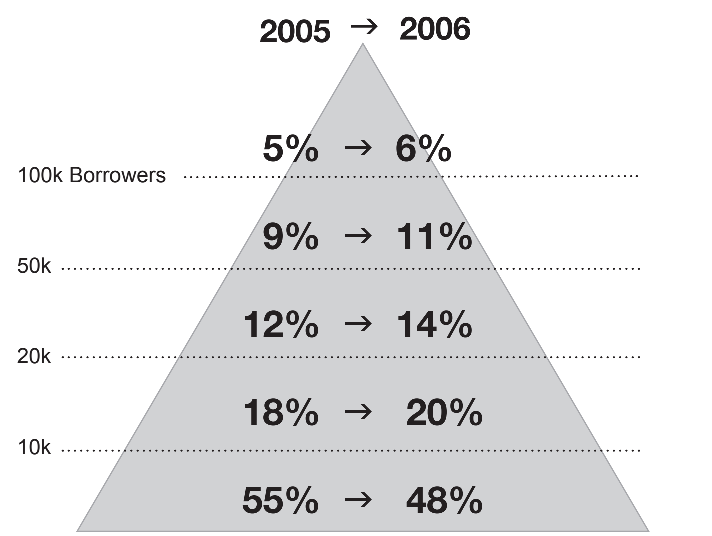
Argentina	Colombia	Ecuador	Honduras	Paraguay
Bolivia	Costa Rica	El Salvador	Mexico	Peru
Brazil	Cuba	Guatemala	Nicaragua	Uruguay
Chile	Dominican Rep.	Haiti	Panama	Venezuela

POWERED BY

NUMBER OF MFIs BY TOTAL NUMBER OF ACTIVE BORROWERS



MARKET SHARE OF LARGEST MFIs



TOP 10 MFIs BY GROWTH IN GROSS LOAN PORTFOLIO (GLP): CHANGE IN GLP

MFI NAME	COUNTRY	CHANGE IN GLP ABSOLUTE	%CHANGE	GLP 2005	2006
Banco Caja Social Columbia	Columbia	417,657,610	34.1	1,223,958,912	1,641,616,522
Banco Estado	Chile	170,183,656	42.9	396,425,440	566,609,096
Caja Popular Mexicana	Mexico	150,036,206	19.5	769,278,016	919,314,222
Caja Libertad	Mexico	125,424,044	36.0	348,598,656	474,022,700
MiBanco	Peru	113,594,140	55.2	205,650,736	319,244,876
Banco Compartamos	Mexico	90,961,938	51.1	178,130,976	269,092,914
Caja Municipal de Ahorro y Crédito de Trujillo	Peru	56,726,069	42.5	133,436,456	190,162,525
Credi Fe Desarrollo Microempresarial S.A.	Ecuador	55,094,495	69.2	79,659,240	134,753,735
Caja Municipal de Ahorro y Crédito de Arequipa	Peru	47,486,508	35.5	133,625,368	181,111,876
Funcación WWB Colombia - Cali	Colombia	46,581,634	46.4	100,498,376	147,071,010

(1) Denotes only microfinance institutions (MFIs) that report to MicroBanking Bulletin (MBB) for 2005 and 2006 or MIX Market (www.mixmarket.org)

WHO'S WHO IN MICROCAPITAL

MICROPLACE, AN EBAY COMPANY

FOR-PROFIT RETAILER OF MICROFINANCE NOTES

MicroCapital Talks to Tracey Pettengill Turner, Founder and General Manager of MicroPlace and Shari Berenbach, Executive Director of the Calvert Foundation, one of the first microfinance product providers on the site.

For those involved in the microfinance industry it would have been well nigh on impossible to miss the recent media coverage of the launch of MicroPlace, eBay's new online retail microfinance marketplace. Despite the company's small-sounding name, the launch is big and has the potential to substantially grow the capital-raising capabilities of the industry, as well as spread the word about microfinance to a much wider audience than currently exists.

In essence the launch takes three big steps all at once: it will market to over 100 million potential everyday investors via eBay, it will offer them the chance to invest in securities lending to microfinance institutions (MFIs) via the internet and finally all of this will be completed under full investor compliance regulatory supervision.

This sense of scale and excitement about MicroPlace's potential is immediately evident talking both to Tracey Pettengill Turner, Founder and General Manager of MicroPlace and also to Shari Berenbach, Executive Director of the Calvert Foundation, one of the first social investment houses to provide MicroPlace with securities to market on the site. Both of them believe firmly that large amounts of revenue and a force for change will be effected by the launch.

Tracey has lead a team of 15 people for over a year in preparation for the event and has the expectations of USD 44 billion-valued eBay behind her. Shari, Executive Director of Calvert since 1997, has had to remodel Calvert's internal procedures and employ three extra staff members in order to become one of the first off the block to trade on MicroPlace and reap the rewards she thinks it will bring. Calvert currently markets 15 different MFI projects on MicroPlace from all over the world, supporting MFIs such as Pro Mujer in Bolivia and PRIDE in Tanzania, with interest rates between 2 and 3 per cent and maturity dates of 3 to 4 years. All the loans are made through the Calvert Community Investment Note vehicle.

Both Tracey and Shari see the "massification" of the market and the leveraging power of the internet as keys to enabling the ordinary investor to invest in microfinance. Without the reach and experience of eBay, these features would be difficult and expensive to attain. Tracey admits that developing complex infrastructure, such as safe payment systems, let alone organising marketing, requires expertise and money. She says she, "feels lucky to be incubating MicroPlace with eBay as partner," adding, "If eBay knocks on your door, you generally answer!" Shari re-iterates this acknowledgment, claiming that Calvert has long wished to market online, but had found the costs of developing a site, clearing transaction money and driving traffic to such a site "daunting challenges," which they could not tackle on their own.

Another large cost is compliance, ensuring that the firm meets the requirements that the securities regulator (SEC) demands of firms marketing to average investors. These compliance procedures are much more onerous than those for firms marketing to institutions and high net worth individuals, but are vital if MicroPlace is to expand the market. Product providers also need to comply and Calvert, unlike many other potential product providers, already has funds and systems that are suitable for the average individual investor.

Tracey is committed to making microfinance available to the everyday retail investor and sees the development of MicroPlace as a re-balancing initiative, as many of the recent innovations in the industry have been for the benefit of the institutional investor. As a result she thinks, "A lot of the capital markets remain untapped," and that MicroPlace has the ability to grow the overall amount of money invested in microfinance. She acknowledges that this dream is dependent on the industry engaging with and using MicroPlace, as her system is essentially only a marketplace, a web-based brokerage on which to buy and sell, and therefore reliant on successful and popular products. "If we can build an efficient platform, it is then up to the industry to think creatively about how to use it," she says.

In this way, MicroPlace is to be seen as a facilitator for the industry, rather than a product developer. Tracey represents herself as "agnostic" about the types of products that are promoted on the site, their interest rates and their currency status, so long as they support microfinance, allow money to be recycled back into the system and pay MicroPlace a 1 per cent fee on any asset raised. She is unapologetic about this fee system, saying "the power of microfinance is that everyone in the supply chain takes part in a profitable way."

By having the 1 per cent fee come out of interest repayments, the investors are not charged for the service, and 100 per cent of their investment goes directly to the issuer. She is unsure when MicroPlace will start turning a profit, but eBay has guaranteed to plough all of this profit back into social investment.

Unfortunately, this "agnosticism" means that MicroPlace will not be regulating the foreign exchange risk that the beneficiary MFIs may be exposed to if the money lent to them is in dollars rather than local currency. Although Tracey supports MicroCapital's stance on this issue (as outlined in the open letter to MicroPlace published on the site on 30 April 2007), which contends that MFIs should not be exposed to foreign currency risk through dollar lending, she sees this as one of many areas where product providers will innovate, for example by providing securities denominated in foreign currency.

Shari Berenbach at Calvert accepts the challenge and is preparing to innovate. By the end of 2007 a quarter of Calvert's products on MicroPlace will be making loans in local currency, as Calvert has already been experimenting with back-to-back structures, swaps and some hedging techniques, which can be expensive as well as scarcely available. But by March 2008 Calvert expects to have a formal strategy in place to create a foreign currency system.

Indeed Calvert has had to make a number of adjustments to trade on the new platform, showing the kind of innovative and flexible approach that Tracey is so keen to see from the microfinance industry. The sheer quantity of business Calvert is expecting via MicroPlace means that the organisation is now accepting a minimum investment as low as USD 100 and is allowing investors to target money directly to a particular MFI rather than having their money in a collective vehicle that Calvert spreads over 200 MFIs. It also means that Calvert is promoting tier-2 MFIs (mid-ranking in size) on MicroPlace, as the organisation does not want to be providing more than 10 per cent of the loans of any one institution, something that could potentially happen with a smaller MFI. But Shari is convinced that these changes are worthwhile, commenting, "It's a phenomenal example of win win."

Calvert is convinced that MicroPlace will attract younger investors than average current Calvert clients, the majority of whom are over 40. MicroPlace's pre-launch market research identified two key customer segments: the "Save the World Enthusiasts," who are young, idealistic and believe that they can change the world, but who have little investment experience; and the "Socially Conscious Affluents," who are slightly older - in their 30s and 40s - and have some investment experience, but want a socially responsible lifestyle and "probably shop at Whole Foods," adds Tracey, referring to the highbrow US grocery.

But more importantly the research revealed that potential investors feel strong geographical connections to certain areas which are likely to trigger the decision as to which fund and MFI they invest in. These connections could be due to family history, ethnic background or through traveling. This could significantly effect which areas of the world and which projects benefit from the potential growth in revenue stimulated by MicroPlace and could be a big factor in future product development.

However, all predictions on the behaviors of MicroPlace investors will soon be unnecessary as their actions instead will provide clear evidence of the way forward. Already MicroPlace is receiving lots of interest from people living in Europe that it cannot fulfill, as MicroPlace is only regulated to operate in the US. ♦♦♦