

## MICROCAPITAL BRIEFS | TOP STORIES

### Dutch Firm PGGM Commits \$316m to Microfinance Investments

Dutch firm PGGM, the asset manager for the Netherlands' healthcare pension fund, Pensioenfonds Zorg & Welzijn (PZW), has announced a USD 316 million equivalent commitment over several years to specialist fund managers affiliated with microfinance. PGGM's first investment of USD 42.7 million has been made via Luxembourg-based Dexia Micro-credit Fund for projects worldwide. PGGM, a recent spin-off from PZW, manages USD 139.1 billion in assets on PZW's behalf. Managed by Swiss microfinance investment advisor BlueOrchard Finance, Dexia is a commercial investment fund with current total assets of USD 298.5 million. April 4. 2008

### \$143m OPIC Guarantee to Allow Calvert to Expand on MicroPlace

The US Overseas Private Investment Corporation (OPIC) will provide USD 10 million in financing to the Calvert Social Investment Foundation, allowing it to sell up to USD 143 million of its Community Investment Notes on MicroPlace, an online service allowing retail investors to earn a return on microfinance investments. Calvert intends to target much of the capital raised to loans to smaller MFIs and to provide local currency loans to MFIs. Fee-funded OPIC reports participating in USD 177 billion worth of investments in poor countries over the last 35 years. April 2. 2008

### IDB Predicts \$20b in Lending in Latin America by 2012

The Inter-American Development Bank's (IDB) Multilateral Investment Fund (MIF) predicts that microfinance loans in Latin America may hit USD 20 billion by 2012, as compared to USD 8.6 billion last year. In 2007, the fund approved USD 100 million in grants and investment projects worth USD 35 million. April 9. 2008

### Low-Profit Limited Liability Company (L3C) Proposed

Legislation pending in the US states of Vermont and North Carolina would allow low-profit limited liability companies (L3C) based in either state to conduct business nationwide. An L3C could include an "equity tranche" with a zero percent return for investors, a "mezzanine tranche" with below-market rate returns and a "senior tranche" providing the highest returns. The structure may finally catalyze the use of Program Related Investments (PRIs) by philanthropic investors, completing the funding circle for "social enterprises". April 15. 2008

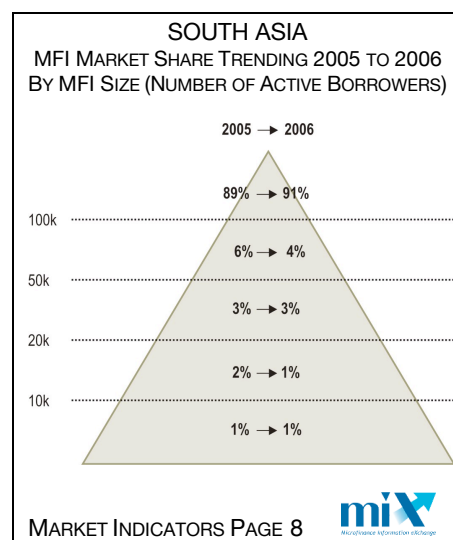
### World Bank Promotes Remittances Against Global Slowdown

The World Bank has urged governments and remittance service providers to facilitate the USD 60 billion flow of annual remittances to Latin America, arguing that the funds can mitigate a southward spread of the US economic slowdown. Remittances represent about 64 percent of foreign direct investment flows to the region, although they grew only 6 percent in 2007, compared to an average of 19 percent between 2000 and 2006. April 16. 2008

### UK's Blackstar Loans \$13m to Kagisano of South Africa

Blackstar Investors, with operations in Luxembourg, has announced that it will provide Kagisano Group Holdings Limited with an equivalent USD 13 million convertible loan facility. To fund this transaction Blackstar has a deal with Investec Bank Limited on matching terms. Publicly-traded Kagisano is a financial services group serving lower-income South Africans with credit products, cellular services, insurance products and other financial services. The loan will bring Kagisano's advances book over USD 39.1 million. Kagisano lists total assets worth USD 23.8 million, of which USD 15.6 million is loans. March 31. 2008

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## MICROCAPITAL BRIEFS

### MicroCapital Expands on ING Review

Dutch Bank ING's recent study on commercial bank microfinance activity "A Billion to Gain? The Next Phase" is reviewed in the Paper Wrap-up section of this issue. In support of this excellent resource, we at MicroCapital are publishing more-detailed reviews of the activities of international financial institutions such as American International Group (AIG), BNP Paribas and Morgan Stanley, all available at MicroCapital.org. April 7, April 10, April 16 and April 22. 2008

### Gray Ghost Fund Spins Off Grassroots Capital Management

Microfinance fund manager Grassroots Capital Management has been formed as a spin-off from the Gray Ghost Microfinance Fund. Grassroots Capital will continue to manage the USD 69 million Gray Ghost Microfinance Fund. April 21. 2008

### Government Requests Resignations at PADME of Benin

Nonprofit ACCION International reports that its partner microfinance institution PADME (Association pour la Promotion et l'Appui au Développement de Micro-Entreprises) was approached by the government with a request for the resignation of its management team. PADME is resisting via the court system, and an interim director has been appointed. PADME reports a loan portfolio of USD 32.8 million, total assets of USD 56.5 million, return on assets of -2.96 percent and debt-equity ratio of 187.61 percent. ACCION lists assets of USD 51.1 million and partner network loans of USD 3.72 billion. April 18. 2008

### ACCESS and ACTED to Build Capacity of South Asian MFIs

ACCESS Development Services (ACCESS) of India and the Agency for Technical Cooperation and Development (ACTED), an independent French non-governmental organization, will be working with 20 microfinance institutions (MFIs) from southern Asia with the goal of increasing economic co-operation between the region and Europe. Partially funded by the European Commission, the project will provide capacity-building support, development of business plans, best practice exchanges among regional MFIs and exposure to European banking standards. ACCESS is a nonprofit whose ACCESS Microfinance Alliance represents 110 MFIs in India. Reporting a 2005 budget of USD 51 million, ACTED participates in microfinance, emergency relief and health promotion. April 17. 2008

### Top Pakistani MFI Khushhali Bank Approaching Private Sector

Khushhali Bank (KB) has converted to a public limited company. Established with support from the Asian Development Bank, KB is now licensed by State Bank of Pakistan to operate under Microfinance Institutions Ordinance 2001, which allows institutions to accept deposits. It is not clear whether the conversion frees KB's shareholders their pre-existing requirement to gain approval from the State Bank of Pakistan before selling shares. As of yearend 2007, KB reported a gross loan portfolio of USD 47 million. April 17. 2008

### SKS Microfinance and Bajaj Allianz Life Offer Microinsurance

Indian microfinance institution (MFI), SKS Microfinance (SKS) is partnering with Bajaj Allianz Life Insurance Company to distribute a group insurance product. Beneficiaries will pay premiums as low as USD 1.13 per month to insure sums as little as USD 62.75, with accidental disability and death benefits also offered. Clients may also obtain a loan under the program for up to 85 percent of the cash surrender value of the policy. As of March 2007, SKS had a gross loan portfolio of USD 63 million, a debt-to-equity ratio of 379 percent, and a ROA of 1.75 percent. Bajaj Allianz Life Insurance provides life insurance services throughout India and is a joint venture between global insurance company Allianz SE and motorcycle maker Bajaj Auto. Allianz manages assets of over EUR 1 trillion. April 17. 2008

### Islamic Finance Forum Bullish

On April 13, the International Islamic Finance Forum opened in Dubai, with tracks on ethical finance and microfinance. AME Info reports that the growth of the Sukuk (Islamic bond) market has been dramatic since the inauguration of the first forum in Dubai in early 2002. Sukuk are now increasingly being issued by conventional institutions, with western governments including the UK set to list. Credit rating company Moody's Investor Services, for example, expects USD 50 billion of Sukuk funding over the next 18 months. April 17. 2008

### World Bank Sees Microfinance Fighting Climate Change

The World Bank's "Development Outreach" publication reported that "A growing circle of microfinance institutions (MFIs), networks and funders has launched new products and partnerships aimed at the microfinance-environment connections....Most of the experiments so far have focused on financing options to help low-income households acquire cleaner/renewable energy technologies such as liquefied petroleum gas (LPG), improved stoves and bio-digesters....Very recently, the World Bank's Carbon Finance Unit has signed agreements to buy the carbon credits through installations of solar systems in homes in Bangladesh by the Grameen Bank's clean energy affiliate, Grameen Shakti (970,000 homes)." April 17. 2008

### Zurich Researches Microinsurance China

Zurich Financial Services Group (Zurich) is working with China's Nan Kai University's Department of Risk Management and Insurance to research demand for microinsurance products in China. Zurich is an insurance-based financial services provider with customers in over 170 countries. April 16. 2008

### Australian Bank to Provide \$1.1m in Aboriginal Communities

National Australia Bank (NAB) has announced it would provide up to an equivalent USD 920,000 in interest-free loan capital and additional funding to assist Traditional Credit Union Limited (TCU) in expanding its banking services for Aboriginal communities. In addition, NAB will grant USD 185,000 to support the opening of new branches of the mutual society. NAB will also provide customers of TCU, an authorised deposit-taking institution, with access to NAB's microfinance programs. April 16. 2008

### EBRD to Extend \$30m Loan to Micro Finance Bank of Azerbaijan

The European Bank for Reconstruction and Development (EBRD) is planning a loan to the Micro Finance Bank of Azerbaijan (MFBA) with USD 10 million of the loan financed by EBRD and the remaining USD 20 million offered to the syndication market on junior terms. Two intergovernmental organizations and 61 countries hold ownership subscriptions in EBRD which reported 2006 total assets of EUR 30.7 billion and a loan portfolio of nearly EUR 8 billion. MFBA reported total assets of USD 133.3 million as well as a loan portfolio of USD 114.5 million, according to the Microfinance Information eXchange. Opened in October 2002, MFBA caters to micro and small enterprises and has 13 branches across the country. April 15. 2008

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**CGAP Working Group on Housing Finance Solicits Feedback**

The Consultative Group to Assist the Poor (CGAP) invites you to take a survey regarding the website of its Working Group on Housing Finance for the Poor. The effort is part of a plan to relocate the site from Habitat.org to CGAP.org in the coming months. April 15. 2008

**RBI in India Solicits Comments on Financial Literacy**

The Reserve Bank of India (RBI) has opened a concept paper on Financial Literacy and Credit Counseling Centers to public comment until the end of April. An RBI working group recommended in 2007 that banks should actively consider opening counseling centers, either individually or with pooled resources, for credit and technological counseling. April 15. 2008

**India's Grameen Koota Receives \$2.3m from Aavishkaar Goodwill**

Indian microfinance institution (MFI) Grameen Koota, recently transformed into Grameen Financial Services Private Limited (GFSP), closed its first round of private equity investment with an equivalent USD 2.3 million from Indian-Dutch joint venture Aavishkaar Goodwill India Microfinance Development Company Ltd.. April 14. 2008

**UN's IFAD Seeks Remittance Proposals to Compete for \$13m**

United Nations agency International Fund for Agricultural Development, with the European Commission, the Inter-American Development Bank, the Consultative Group to Assist the Poor, the Government of Luxembourg, Spain's Ministry of Foreign Affairs and Cooperation and the United Nations Capital Development Fund, is accepting proposals through May 30 for its USD 13 million Financing Facility for Remittances focusing on serving rural areas. April 14. 2008

**Bill Gates Believes in "Creative Capitalism"**

Microsoft chairman Bill Gates gave two speeches in which he promoted business involvement in serving the poor and participation in government and nonprofit partnerships. He touted "creative capitalism" in remarks to the Government Leaders Forum and the Inter-American Development Bank on April 4. April 11. 2008

**How Big is a Microfinance Safe Deposit Box?**

Micro Finance Bank of Azerbaijan (MFBA) reports having begun leasing safe deposit boxes. April 11. 2008

**Kenya Reviews Legislation Rural Banking, Mobile Banking**

The Central Bank of Kenya (CBK) has vowed to review regulations to allow traditional and branchless banking services to further penetrate rural areas. Branchless banking involves banking services without a physical facility, including mobile vans providing banking and telephone-based services. Although a 2007 Consultative Group to Assist the Poor (CGAP) report cited Kenya as a world leader in fostering mobile phone banking and other branchless banking services, the cost of complying with regulations intended to protect depositors has impeded expansion in rural areas. April 11. 2008

**Pro Mujer Peru and InVita Offer Microinsurance**

Microfinance institution Pro Mujer Peru has begun offering life insurance to its borrowers through a partnership with Peruvian insurance provider InVita, an affiliate of Dutch financial services provider ING and Peruvian conglomerate Grupo Wiese. Coverage includes a cash death benefit plus repayment of the entrepreneur's loan to Pro Mujer Peru. The service mirrors a similar product offered by Pro Mujer Bolivia. April 11. 2008

**South African Legislation Increases Competition, Consolidation**

South Africa's City Press has reported that the country's National Credit Act (NCA), introduced last June to regulate what it claims is a USD 3.84 billion microfinance industry, has touched off a wave of consolidations as 2,100 small lenders merge with or acquire to face competition. Big lenders such as African Bank, Capitec Bank, and Blue Financial Services have been doing well under the new law and have been part of the consolidation process. African Bank, for example, acquired furniture retailer and credit provider Ellerines for an equivalent USD 1.3 billion. April 11. 2008

**Online Financial Reporting Tool SIMFLEX Launched**

An online product for the creation of financial statements by microfinance institutions (MFIs) has been launched by Sheer Intelligence, an American technology firm. The tool creates income statements, balance sheets and portfolio and non-financial reports at a cost of USD 50 per year. Sheer Intelligence founder Vivien Ashworth was most recently the IT Manager for the Microfinance Information eXchange. April 11. 2008

**Microfinance International Expands Remittance Network**

Microfinance International has expanded its network by merging with San Diego-based El Camino Transferencias, a remittance company with distribution in 22 countries. April 11. 2008

**EDA Founds CapitalConnect**

Founded by EDA Rural Systems (EDA), CapitalConnect (CC) is a new information dissemination and price discovery platform for social enterprise transactions. The management team of CC includes key staff of Micro-Credit Ratings International (M-CRIL), an EDA Group company that reports having completed 480 assessments of microfinance institutions since 1998. April 10. 2008

**Lok Capital Grows to \$22m to Invest \$1.25m in Satin Creditcare**

Lok Capital, an India-focused microfinance venture capital fund, has grown its assets to USD 22 million with investments from nonprofit ACCION International, Swiss fund responsAbility and Canada's Développement International Desjardins. Lok also will investment USD 1.25 million in Satin Creditcare Network Limited, a microfinance institution with a presence in 70 towns across 6 states. Also to invest in Satin is noted journalist Mr. Swaminathan Aiyar. April 10. 2008

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### Annual Policy Conference on Indian Microfinance Held

Community development finance association Sa-Dhan and government officials recently held a conference aimed at streamlining India's microfinance infrastructure to sustain growth. Sa-Dhan has 162 members with a collective reach of 7 million clients. April 10. 2008

### Western Union, RadioShack to Offer Remittances by Cellphone

Western Union is teaming up with RadioShack and Trumpet Mobile to offer a service that lets people send money through their cellphones. The service is aimed at immigrants to the US who regularly send money to family members in their native countries. The global money-transfer market totals USD 300 billion. April 9. 2008

### IDB Approves \$2.5m for Rural Expansion at Chile's Credicoop

The Inter-American Development Bank's (IDB's) Multilateral Investment Fund (MIF) will loan and grant a total of USD 2,463,000 to design a financial services coverage system for suburban and rural entrepreneurs in Chile. Local funds provided by the executing agency, Cooperativa de Servicios Financieros a la Microempresa, Credicoop Ltda, will total USD 2,871,000. The MIF, administered by the IDB, supports private sector development in Latin America. April 9. 2008

### IFC Releases Study on Their Financing of Microenterprises

The Independent Evaluation Group of the International Finance Corporation (IFC) has released a study evaluating the effectiveness of IFC's support of micro-, small and medium enterprises in high-risk and low-income countries between 1994 and 2006. April 9. 2008

### India's Sa-Dhan Sees Growth Highest in East, North

Community development finance association Sa-Dhan reports that microfinance institutions last year grew at rates of over 80 percent in northern and eastern India and 56 percent in the south. Sa-Dhan has 162 members with a collective reach of 7 million clients. April 9. 2008

### EBRD Doubles Support for Bosnia's EKI with Second \$9m Loan

The European Bank for Reconstruction and Development (EBRD) is providing an equivalent USD 9.1 million loan to Mikrokreditna organizacija EKI (EKI). The loan is funded by the USD 114 million EBRD Micro, Small and Medium Sized Enterprises Finance Framework for the Western Balkans and Croatia and will be complemented by a USD 450,000 technical assistance program. Through its network of 12 branches and 27 sub-offices, EKI serves 24,500 clients. EKI reports total assets of USD 126 million, a debt-equity ratio of 427 percent and a return on assets of 7.46 percent. EBRD has committed over USD 1.5 billion to 133 financial institutions. April 8. 2008

### Whole Foods' Supplier Alliance Pledges \$1m to Microfinance

Whole Foods affiliate Whole Planet Foundation (WPF), has formed a coalition of natural foods companies to pledge USD 1.05 million over three years, which will be loaned via Grameen Trust, Fundación Adelante and Pro Mujer in Nicaragua. April 8. 2008

### UNDP Allocates \$32m for Microfinance and More in Angola

The United Nations Development Programme (UNDP) in Angola has allocated an unspecified portion of a USD 32 million budget to a youth-oriented microfinance effort in partnership with Banco Nacional de Angola, Chevron Corporation and nonprofit Development Workshop Angola (DWA). DWA is the parent of microfinance institution KixiCredito which reports 9,100 borrowers, total assets of USD 5.2 million, loan portfolio of USD 2.9 million, return on assets of 16.1 percent and debt-equity ratio of 63.8 percent. April 7. 2008

### Ericsson, UNDP Plan Mobile Financial Services for Rural China

Farmers in remote areas may soon access financial services using mobile phones via a project launched in Beijing by wireless provider Ericsson and the United Nations Development Programme. April 7. 2008

### Cameroon Reflects on Growth, Challenges

Cameroon is opening a refinancing fund backed by the African Development Bank to mitigate liquidity issues among microfinance institutions. Other problems in the sector include overlapping national and international regulations and abuses by unauthorized MFIs. In the six central African countries of the Economic and Monetary Community of Central Africa (CEMAC), the number of microfinance clients rose to 1.3 million in 2007 against 445,000 in 2000. April 7. 2008

### Philanthropic Marketplace Could Counter "Giving With the Stars"

A Financial Times piece argues that "celebrity philanthropy" leads to funds being "sprinkled around with a troubling lack of focus." Instead "a true global philanthropic marketplace" is proposed which "will guide individuals and their dollars to organisations and causes that yield the highest and best results for society." April 7. 2008

### ACCESS Development Offers Water Filters on Payment Plans

ACCESS Development Services, an Indian microfinance technical services nonprofit, and Hindustan Unilever Limited (HUL), one of the country's largest producers of consumer goods, are partnering to improve access to safe drinking water in rural areas. Local microfinance institutions (MFIs) are offering payment plans for a new type of filter from HUL. ACCESS and HUL are now looking at expanding the initiative via the ACCESS Microfinance Alliance of 110 partner MFIs. April 7. 2008

### State Bank of Pakistan Allows MFIs to Raise Tier-II Capital

The State Bank of Pakistan (SBP) released new guidelines for microfinance institutions (MFIs) that require a minimum capital adequacy ratio (CAR) of 15 percent of risk-weighted assets. To meet this requirement, the central bank will allow MFIs to raise tier-II capital and subordinated debt in local currency. Tier-I capital is core capital, which includes equity and disclosed reserves. Tier-II capital is secondary bank capital that includes undisclosed reserves, general loss reserves and subordinated term debt. Subordinated debt in local currency can be used upon approval from SBP. April 3. 2008




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**ACCION, Ecobank Group Launch MFI in Ghana**

ACCION International, a microfinance-oriented nonprofit, and Ecobank, a banking group with operations throughout Africa, have partnered to launch microfinance bank EB-ACCION Savings & Loan in Ghana. The opening of EB-ACCION is anticipated to be one step in a regional West African microfinance initiative. In 2006 annual reports, ACCION reported assets of USD 51.1 million and Ecobank reported assets of USD 3.5 billion. April 3, 2008

**Dutch FMO Lends \$1.1m to FINCA Guatemala**

Netherlands Development Finance Company (FMO) has financed USD 1,103,100 in loans to Fundación Internacional para la Asistencia Comunitaria de Guatemala (FINCA Guatemala). FMO had 2006 total assets of EUR 2.3 billion and a loan portfolio of EUR 1.1 billion. Nonprofit FINCA Guatemala reports a loan portfolio of over USD 8.4 million and 41,100 clients. FINCA International is a global microfinance network operating in 21 countries with 2006 total assets of USD 252 million and a loan portfolio of USD 166 million. April 2, 2008

**Institute of Microfinance of Bangladesh Launches Website**

The Institute of Microfinance facilitates research and education on microfinance in Bangladesh and internationally. It recently launched a website in support of its plans to expand its work into areas related to microfinance, such as poverty, rural finance, savings, impact assessment and gender issues, as well as to collaborate with national and international universities to offer professional degrees and conferences to microfinance professionals. April 2, 2008

**Fundación BBVA to Acquire Edpyme Crear Tacna of Peru**

The Fundación BBVA para las Microfinanzas (BBVA) has received regulatory approval to acquire the Edpyme Crear Tacna. The foundation intends to merge the MFI with two others to form the 8th largest MFI out of 39 in Peru. Having begun operations last year with a USD 259.9 million endowment, BBVA is the nonprofit microfinance arm of Spanish bank Banco Bilbao Vizcaya Argentaria. Crear Tacna, reports 13,372 clients, gross loan portfolio of USD 19.89 million, return on assets of 3.1 percent and return on equity of 17 percent. April 1, 2008

**Oikocredit of the Netherlands Invests \$4.7m in India and Ghana**

Dutch cooperative fund Oikocredit has loaned USD 2 million to Amalgamated Bank Limited (AmalBank) of Ghana, USD 1.5 million to CARE India affiliate Gram-Utthan and USD 1.2 million to Semam Microfinance Investment Literacy and Empowerment (SMILE) of India. Oikocredit holds USD 455.8 million in assets. SMILE reports 175,000 active borrowers, loan portfolio of USD 16.4 million, assets of USD 20 million, return on assets of 0.46 percent and return on equity of 6.15 percent. Gram-Utthan has over 41,000 active borrowers, loan portfolio of USD 5.5 million, assets of USD 6.6 million, return on assets of -0.8 percent and return on equity of -221.22 percent. AmalBank reports USD 7.8 million in capital. March 31, 2008

**Dutch Oikocredit Invests \$6.4m in Latin American MFIs**

Dutch cooperative fund Oikocredit has loaned USD 4.4 million to Peruvian microfinance apex institution EDPYME Edyficar (EE). Further investments went to Fundación Campo de El Salvador (USD 1.05 million), Fundación Ecuatoriana de Desarrollo (FED) of Ecuador (USD 500,000), Cooperativa San Antonio Ltd. of Nicaragua (USD 300,000) and Cooperativa de Servicios Múltiples TEPEYAC (CSMT) of Nicaragua (USD 200,000). Oikocredit reports USD 455.8 million in assets. CARE affiliate EE reports a total loan portfolio of USD 127.9 million, total assets of USD 152.9 million, return on assets of 5.05 percent and a return on equity of 30.27 percent. Nonprofit Fundación Campo reported total assets of USD 3.3 million, loan portfolio of USD 2.7 million, return on assets of 4.86 percent and return on equity of 6.39 percent. FED had USD 13 million in total assets, total loan portfolio of USD 9 million, return on assets of -1.49 percent and return on equity of -2.55 percent. Current financial data was not available for Cooperativa San Antonio or CSMT. March 31, 2008

**US-based MicroCredit Enterprises Invests \$1.5m in 3 MFIs**

MicroCredit Enterprises (MCE) loaned USD 500,000 to Norwegian Microcredit (Normicro) of Azerbaijan, CREDISOL of Honduras and Lazika Capital of Georgia. MCE is a nonprofit microfinance investment fund with assets of USD 23.5 million. Normicro, CREDISOL and Lazika Capital report a loan portfolios of USD 6.9 million, USD 2 million and USD 1.6 million, respectively. March 31, 2008

**World Bank Puts \$2.4m into Wounded Rwanda Sector with ATMs**

The Ministry of Finance and the World Bank will invest USD 2.4 million in the microfinance sector after eight microfinance institutions (MFIs) were forced to close. The goals are to improve transparency, increase management training and offer refinancing facilities for high-performing MFIs. Meanwhile, MFIs are in discussions to offer electronic financial transactions via the automated teller machine (ATM) network Simtel. It is proposed that the African Development Corporation will take over as majority shareholder in Simtel. March 31, 2008

**Spain's BBVA Lends \$2.1m in Central America**

The second-largest bank in Spain and Latin America, Banco Bilbao Vizcaya Argentaria (BBVA) financed USD 2,017,400 in loans to Financiera Solidaria (FINSOL) and USD 100,000 to Asociación Alternativa Para el Desarrollo Integral de las Mujeres (ADIM). BBVA reports total assets of EUR 502 billion, loan portfolio of EUR 318 billion and return on assets of 1.39 percent. In 2007, the bank created a microfinance hedge fund, BBVA Codespa Microfinanzas, and a microfinance foundation, Fundación BBVA para las Microfinanzas. ACCION affiliate FINSOL of Honduras reports total assets of USD 32.8 million and a debt-equity ratio of 331 percent. March 28, 2008





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### **CGAP Runs Central Africa Policy Forum**

At the recent Central Africa Policy Forum leaders from Sub-Saharan Africa were to discuss the supervision of cooperatives, reducing the cost of financial services, new banking technologies and how to balance consumer protections with increased access to services. Forum organizer CGAP is the World Bank's microfinance policy shop. March 28. 2008

### **Baby Steps in China's Countryside**

HSBC, with assets of USD 93 billion, will increase its 2007 investment of USD 1.4 million in one rural bank in China and plans to open more. New Hope Group, one of the largest agricultural companies in China, plans to spend an equivalent USD 14 million this year expanding rural financial institutions. With assets of USD 100 billion, China's Minsheng Bank also announced plans to invest USD 2.8 million to take a 20 percent stake in a village bank. March 28. 2008

### **MIX and SEEP in Ghana and Beyond**

Staff of the Microfinance Information eXchange (MIX) recently held trainings in Ghana on the use of the SEEP financial reporting framework. The two Washington DC non-profits seek to standardize financial reporting in the microfinance industry. March 28. 2008

### **Norfund Invests \$2.5m in Cambodian Microfinance Institutions**

The Norwegian Investment Fund for Developing Countries (Norfund) has loaned USD 1 million to Hattha Kaksekar Ltd. (HKL) and USD 1.5 million to Cambodian Entrepreneur Building (CEB), both of Cambodia. Norfund is a financial development institution funded by the Norwegian government, with a capital base of USD 449 million. HKL has a current loan portfolio of USD 6 million. CEB reports a loan portfolio of USD 12.3 million. March 27. 2008

### **First Pakistani Microinsurer Launched with \$483k from AKAM**

The first dedicated microinsurance agency in Pakistan has been launched with funding from the Switzerland-based Aga Khan Development Network's (AKDN) microfinance arm. The First Microinsurance Agency (FMiA) has received equivalent USD 482,567 in start-up capital from the Aga Khan Agency for Microfinance (AKAM) and is partnering with AKDN affiliate New Jubilee Life to offer life and health insurance. AKAM reports a gross loan portfolio of USD 68.9 million and a debt-equity ratio of 102.62 percent. March 27. 2008

### **Citi and SEEP Strengthen Trade Associations With \$11.2m**

The Citi Foundation and the Small Enterprise Education and Promotion (SEEP) Network will create a three-year, USD 11.2 million program to improve the integration of microfinance into the mainstream economies of developing countries. Partnering trade associations represent 19 million clients of 1,300 microfinance organizations in roughly 60 countries. The SEEP Network, with 67 members in over 140 countries, develops best practice standards in enterprise development and financial services. Citi Foundation has contributed USD 60 million to 250 microfinance organizations in 55 countries. March 26. 2008

### **ADB, Japan Fund Provide \$1m for Philippino Microinsurance**

The Japan Fund for Poverty Reduction (JFPR) has provided a grant of USD 1 million to the government of the Philippines to develop its microinsurance sector. With USD 360 million in assets, JFPR was established by the Japanese Government and the Asian Development Bank (ADB) to focus on long-term, sustainable development projects. Supported by 67 member countries, ADB disbursed USD 5.7 billion in 2006. March 25. 2008

### **UN Capital Development Fund Expands MF Course with SUNY**

The United Nations Capital Development Fund (UNCDF) will work with the State University of New York (SUNY) to expand its free, web-based Microfinance Distance Learning course. March 25. 2008

### **Germany's KfW Lends \$14.7m to Moroccan MFI FONDEP**

KfW Entwicklungsbank (KfWE), the emerging-economy financing arm of Germany's KfW banking group, loaned an equivalent USD 14.7 million to the Fondation pour le Développement Local et le Partenariat (FONDEP) of Morocco. KfWE reports USD 923 million allocated to microfinance investments. FONDEP reports assets of USD 30.5 million, a loan portfolio of USD 26.8 million, return on assets of 19.17 percent and debt-equity ratio of 225.14 percent. March 25. 2008

### **Incofin, MicroCredit Enterprises Invest \$1.5m in IMON**

The International Microloan Fund (IMON) of Tajikistan has received loan investments of USD 500,000 from US-based MicroCredit Enterprises and USD 1 million from Incofin of Belgium. Affiliated with Mercy Corps International, microfinance institution (MFI) IMON reports a total loan portfolio of USD 15.2 million. Incofin is a co-operative socially responsible investment fund based in Belgium with USD 10.1 million allocated to MFIs worldwide. Nonprofit MicroCredit Enterprises has USD 23.5 million invested in MFIs. March 24. 2008

### **MicroCapital.org Surveys Impact of Microfinance on Women**

MicroCapital.org published a three-part survey of the impact of microfinance on women. March 17, March 18 and March 19. 2008

### **responsAbility Loans \$3m to FINCA Kyrgyzstan**

Luxembourg-based responsAbility Global Microfinance Fund has loaned USD 3 million to the Foundation for International Community Assistance (FINCA) Kyrgyzstan. responsAbility specializes in investments in microfinance institutions and small business enterprises. responsAbility reports invested assets totaling USD 200 million. A partner of FINCA International, FINCA Kyrgyzstan holds a loan portfolio of USD 34 million. FINCA International reaches over 500,000 clients with a loan portfolio of USD 166 million. March 18. 2008

### **CARE, Allianz Insure Against Disaster in India**

Aid agency CARE international and global insurance company Allianz are offering insurance in India to cover natural catastrophes and accidents. A community fund will retain 65 percent of the premiums to pay benefits up to an agreed-upon ceiling. The remainder is given to Allianz's India branch, Bajaj Allianz, to cover overages. With 80 million customers in 70 countries, Allianz Group offers microinsurance in Indonesia and Egypt. US nonprofit CARE International serves 55 million poor people each year in 70 countries. March 17. 2008

### **EBRD Lends \$1.5m to MFI Credo of Georgia**

The European Bank for Reconstruction and Development (EBRD), a multilateral development bank serving ex-Communist economies, will loan USD 1.5 million to Credo, Georgia's second-largest microfinance institution (MFI). EBRD reports an equivalent USD 40.5 billion in assets. World Vision International affiliate VF Credo Foundation reports assets of USD 5.2 million. March 17. 2008

### **The New Yorker Points Out "What Microloans Miss"**

A March New Yorker article argues that the hype around microfinance has obscured its limits: "What poor countries need most, then, is not more microbusinesses. They need more small-to-medium-sized enterprises, the kind that are bigger than a fruit stand but smaller than a Fortune 1000 corporation." March 17. 2008

### **WOCCU Publishes Model Regulations for Small Institutions**

With funding from the US Agency for International Development (AID), the World Council of Credit Unions has developed a set of Model Regulations for Credit Unions, designed as a companion piece to its 2005 Model Law for Credit Unions. March 17. 2008 ♦♦♦

## UPCOMING EVENTS

### Microfinance Cracking the Capital Markets: South Asia

April 29 - April 30, 2008, Delhi, India

The investor-MFI segment is free of charge, whereas an investment readiness workshop costs USD 150. Further details are available from Stephanie Dolan at [conference@accion.org](mailto:conference@accion.org) or +1 617 625 7080 x1119 or via <http://southasia.crackingthecapitalmarkets.com>.

### Access To Opportunity In The Middle East

May 5 - May 7, 2008, Dead Sea, Jordan

This conference includes a session by regional microfinance institution managers, "Access to Capital: Microfinancing to SMEs." The general fee is USD 450 while the cost is USD 250 for local participants. More information is available via Dan Lamey at +1 305 667 4705, [opic@trademeetings.com](mailto:opic@trademeetings.com) or <http://www.trademeetings.com/ssMeetingDetails.asp?meetingId=195&pageId=919>.

### Sanabel Annual Conference and EIB Social Impact Conference

May 5 - May 9, 2008, Tunis, Tunisia

Sanabel Microfinance Network of Arab Countries will hold a conference with the European Investment Bank on the social impact of microfinance on May 5. Over the next three days, Sanabel holds its fifth annual conference. Field trips will be available May 9. Fees are USD 350 to USD 550. Details are available via [info@sanabelnetwork.org](mailto:info@sanabelnetwork.org), +20 2 37 48 86 24 or <http://www.sanabelnetwork.org/en/node/423>.

### European Fund For Southeast Europe (EFSE) Annual Meeting

May 6 - May 8, 2008, Sibiu, Romania

Registration is by invitation. Inquiries may be made to Sabine Siebenbrock via +49 69 154008 607 or [s.siebenbrock@frankfurt-school.de](mailto:s.siebenbrock@frankfurt-school.de).

### Seventh Annual Roundtable on Caribbean Microfinance

May 13 - May 15, 2008, Nassau, Bahamas

The Caribbean Microfinance Network is sponsoring this conference costing USD 350. More details are not yet available online, but may be requested via +1 868 625 0280 or [cmahabir@smedevfin.com](mailto:cmahabir@smedevfin.com).

### Mobile Money Summit: Expanding Markets, Transforming Lives

May 14 - May 15, 2008, Cairo, Egypt

Organizers include the GSM Association, which represents 700 mobile operators worldwide. The registration fee is USD 1,499. Registration and more details are available via <http://mobilemoneysummit.com/> or [mobilemoneysummit@gsm.org](mailto:mobilemoneysummit@gsm.org). No telephone number is offered.

### Global Microfinance Investment Congress

May 14 - May 16, 2008, New York, United States

This conference is presented by PlaNet Finance, with fees from USD 1,495. For details, contact [customer-care@americanconference.com](mailto:customer-care@americanconference.com), +1 416 927 8200 or <http://www.microfinancecongress.com>.

### Tenth Annual IFC Global Private Equity Conference

May 15 - May 16, 2008, Washington DC, United States

The International Finance Corporation and the Emerging Markets Private Equity Association will host. Fees are USD 1,495 for general registration and USD 1,095 for EMPEA members and international financial institutions. Details are available via +1 516 765 9005 x21, [cathy@ibfconferences.com](mailto:cathy@ibfconferences.com) or <http://www.globalpeconference.com/>.

### Microfinance Centre Eleventh Annual Conference

May 29 - May 31, 2008, Ulaanbaatar, Mongolia

This is the Microfinance Centre's eleventh annual conference. The registration fee is USD 800 with discounts available for MFC members. Details are available via [anna@mfc.org.pl](mailto:anna@mfc.org.pl), +48 22 622 34 65 or <http://xacbank.mn/mfc-conference2008/>.

### 2008 FT Sustainable Banking Conference and Awards

June 3, 2008, London, United Kingdom

Innovations in social, environmental and corporate governance will be covered. The conference fee is GBP 649 (USD 1,290) plus GBP 300 (USD 600) for the awards or GBP 849 (USD 1,690) for both. More details are available via +44 (0)20 7873 4109, [aliki.varsamides@FT.com](mailto:aliki.varsamides@FT.com) or <http://www.ftconferences.com/sustainablebanking/>.

### HBS-ACCION Program On Strategic Leadership In Microfinance

June 15 - June 21, 2008, Cambridge, United States

Visit Harvard Business School to connect with peers while engaging with top HBS faculty. The cost is USD 6,850, including housing, meals and other perks. A rate of USD 5,450 for "experienced practitioners" excludes initial introductory material. More details are available via [hbsaccion@accion.org](mailto:hbsaccion@accion.org), <http://accion.org/hbs> or +1 617 625 7080.

### A Billion To Gain? The Next Phase

June 16, 2008, Amsterdam, Netherlands

The ING Group will host this opportunity to discuss issues addressed in its study of the same name. Registration fees and a contact telephone number are expected shortly at <http://www.ingmicrofinance.com/>. For more information email [ing.microfinance.support@mail.ing.nl](mailto:ing.microfinance.support@mail.ing.nl).

### Sustainable Finance Summit

June 23 - June 24, 2008, Brussels, Belgium

This event will address risks of ignoring sustainability and how to access sustainable and ethical opportunities. Registration fees are EUR 1,495 (EUR 800 for NGO representatives) until May 23, after which fees rise EUR 200. Details are available via [emmeline.salado@ethicalcorp.com](mailto:emmeline.salado@ethicalcorp.com), +44 20 7375 7170 or <http://www.ethicalcorp.com/finance/>.

### Frederick's Microfinance Conference 2008

July 11, 2008, London, United Kingdom

Details on this event, to be held at the London Stock Exchange, were not available at press time, but the contact person is Margot Wilson, who can be reached at [margot@margotwilsonassociates.com](mailto:margot@margotwilsonassociates.com) or +44 (0) 791 864 2528. More details are expected soon via <http://www.fredericksfoundation.org/>.

### 2008 World Credit Union Conference

July 13 - July 16, 2008, Hong Kong, China

Mobile banking, the needs of poor women and technology trends will be addressed. The fee is now USD 1,195 with a member price of USD 995. Discounts are offered for various groups, but fees increase May 9. Details are available via Meghan Olisar at +1 608 395 2095, [molisar@woccu.org](mailto:molisar@woccu.org) or <http://www.woccu.org/events/wcuc>.

### Microfinance: The Investment Opportunity

July 14 - July 15, 2008, San Francisco, United States

Silicon Valley Microfinance Network (SVMN) is sponsoring this event. Registration fees are USD 1,795 plus USD 300 for an introductory workshop, with discounts available to certain attendees. More details are available at <http://www.frallc.com/conference.aspx?ccode=B631> or from Joanne Miner at [jminer@frallc.com](mailto:jminer@frallc.com) or +1 800 280 8440.

### Asia-Pacific Microcredit Summit Campaign 2008

July 28 - July 30, 2008, Bali, Indonesia

This conference is the twelfth in a series aimed at reaching the world's poorest families. Discounted pricing of USD 170 is available through May; those from the Asia-Pacific region pay USD 120. Add-on site visits are offered on July 27 as is a selection of classes on July 31. More details are available at +1 202 637 9600, [info@microcreditsummit.org](mailto:info@microcreditsummit.org) or <http://www.inamicrocreditsummit.org/>. ♦ ♦ ♦

**MICROCAPITAL MARKET INDICATORS | SOUTH ASIA**6 COUNTRIES | 136 MFIs REPORTING<sup>1</sup>

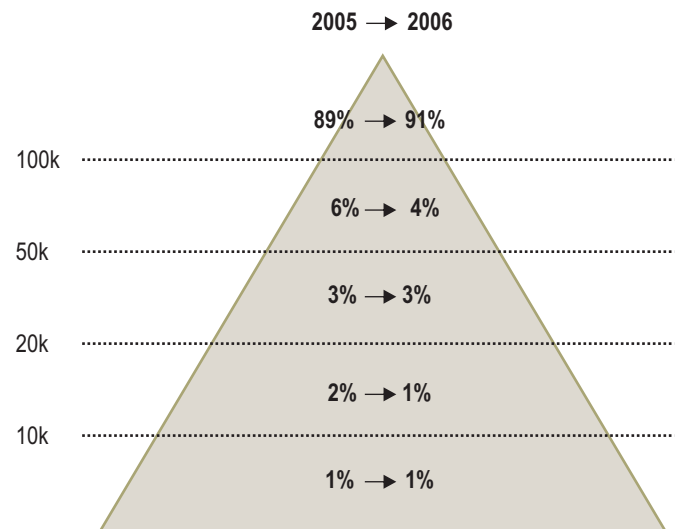
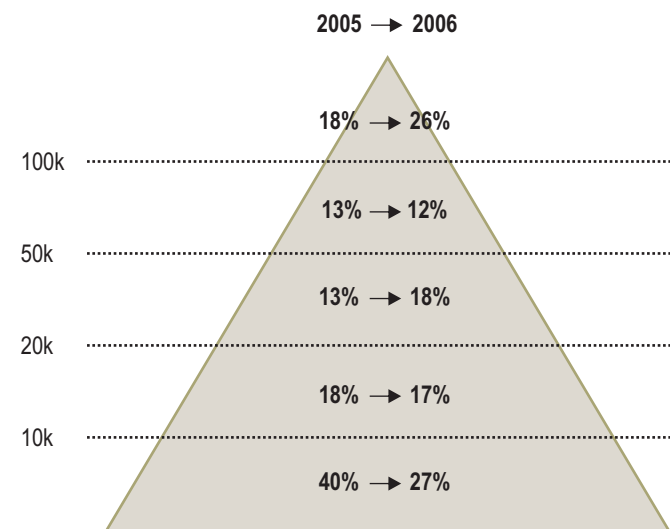
Afghanistan  
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India

Nepal  
Pakistan  
Sri Lanka

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Microfinance Information eXchange

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

MFI NAME	COUNTRY	ABSOLUTE	% CHANGE	2005	2006
BRAC	Bangladesh	79,216,224	29.9	264,603,360	343,819,584
Grameen Bank	Bangladesh	57,025,512	13.4	424,536,608	481,562,120
ASA	Bangladesh	49,341,994	19.4	254,277,216	303,619,210
SKS Microfinance Private Limited	India	42,142,558	209.2	20,149,194	62,291,752
SKDRDP	India	27,329,190	113.3	24,112,226	51,441,416
Bandhan (Society and NBFC)	India	21,306,483	258.8	8,234,249	29,540,731
Spandana	India	18,954,993	30.1	63,003,724	81,958,717
BRAC Afghanistan	Afghanistan	13,331,063	180.0	7,406,109	20,737,172
Mahasemam-SMILE	India	13,198,131	443.0	2,979,539	16,177,670
Grama Vidiyal	India	12,524,751	223.2	5,612,250	18,137,001

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

(1) Denotes only MFIs that report data for 2005 and 2006 to MicroBanking Bulletin (MBB) or MIX Market.

Source: Microfinance Information eXchange, Inc., March 2008, based on MFIs reporting to MBB or MIX Market



## PIONEERS IN MICROFINANCE

*Dr. John Hatch is Founder and Secretary of FINCA, the Foundation for International Community Assistance.*

This series recognizing early innovators in social finance is generously underwritten by:

# Deutsche Bank



### Dr. John Hatch

*MicroCapital: Was there something in your upbringing that sparked your passion for social finance that you might share with our readers?*

JH: My mother was born in Costa Rica, and I learned Spanish as a kid and then went into the Peace Corps and became fluent. This draw to Latin America is where I began. So, it was family background and a Spanish-speaking mother and an early experience with the Peace Corps of seeing the poorest of the poor....

I'd been to Latin America a couple times in the summer working for uncles in Costa Rica.... My Costa Rican uncle was a representative for American products, so I'd go door-to-door selling those things. Getting people to buy a typewriter...that's how I picked up my Spanish, and I was kind of a novelty in those days. My first sale was a Royal typewriter to the madam of a house of prostitution!

As a Fulbright scholar, I did research in northern Peru. My project was hiring myself out as a laborer to thirty peasant farmers and, basically, I worked a different farming task each day. I just rationed my time to these guys and, little by little, got two and three and four opportunities to do each kind of agricultural task with different people. So, it was that sensitivity to and experience with poor people: number one.

Secondly: this really great admiration for what they do. You know, they live on virtually nothing, they don't get loans, they're capital-starved, but they just make do with what they have. They subsist, they survive, they use this very, very old technology inherited from generations past in water management and conservation of water in the soil. Their only tool, virtually, is a shovel. That gave me a profound respect for them and their technology. I knew, from that point on, that economic development, if it would ever succeed, would have to include their voices - giving them participation in the design, management and evaluation of the projects intended to benefit them.

It was my real graduate school, and I took that learning and that respect into the next ten years as a consultant for the US Agency for International Development (AID) and other clients, and it was the frustration of working with AID...the frustration of finding nobody out there who would resonate with what I was calling "participatory development"...bottom-up development. Nobody wanted to hear it, and so I finally said, "If this is going to happen in my lifetime, I've got to create my own institution and do it my way." That was the seed bed.

*MC: How did this relate to your studies in graduate school?*

JH: My thesis was called, "The Corn Farmers of Motupe: A Study of Traditional Agricultural Practices," and its merit was that I went into it totally non-judgmentally. It was not appraising them for their scientific validity or whether they were superstitious or anything. It was simply, "Tell me what you do. Why do you do it that way?"

So, I was there literally at the creation, as crops went into the ground, watching, and my deal with the peasants was this: "I will give you a full day of my labor for this particular task." And they said, "Great!". I said, "You don't have to pay me. Just put an extra plate of food on the table of whatever your family is going to be eating that day, and that'll be my payment." The second thing was, "And I need the male head-of-household out there in the field with me for that day. I'd like to do the task with him, so I've got somebody to tell me about it." So, that was how I did it, and I just kept repeating that with the thirty peasant farmers over a period of two crop cycles.

I'm somewhat of an artist, and it was so hard to describe this narratively that I began to do pen-and-ink drawings of different tasks and illustrations of how they did their procedures and stuff. So eventually this thesis had about eighty pen-and-ink drawings in it. So, I called it my Picture Book for Academicians.

I had a committee of five professors and two of the five hated what I had done. Hated it...they thought it was an atrocity. And the other three loved it. Subsequently, it was used as a textbook for economics at the University of Wisconsin for years and years. This methodology would later be known as "village banking."

After my Peace Corps volunteering and graduate school, I supervised a group of fifty volunteers in cooperatives. It was that experience in the principles of cooperatives that I had integrated mentally, and that's why I was probably thinking in terms of savings, credit and the whole village banking methodology, which today is like an informal form of credit unionism.

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*I knew, from that point on  
that economic development, if it  
would ever succeed, would have to  
include [these poor farmers'] voices*

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[Years later] on a flight to Bolivia for a consultancy - on my second double bourbon - this idea dropped into my head: the idea of creating a bank that would be run by poor people. It was that village banking experience - that idea. I walked it into AID the next day, and I said, "I'm not going to do the consultancy you invited me down here to do. I think it's a horrible idea, and I'm willing to pay my way home. But I do come with a better idea, and I'd like you to listen to it." They did, they liked it, and they said, "Let's try it!"

They gave me USD 1 million in local currency to launch it in Bolivia, and I didn't even have a nonprofit; this was my consulting firm. It was kind of unheard of for them to give USD 1 million to a consulting firm. But, we took that money and we organized teams in five regions of the country. In the whole country, we reached 433 communities with this project and 17,000 borrowers in our first year. That was 1984.

## PIONEERS IN MICROFINANCE (Continued)

The project in Bolivia was a massive success. AID loved it. It was so unique. And then all those people left, and a whole bunch of newcomers came, and they didn't like the project. In 1986 AID actually closed it down. So, I went back to my consulting work and became, at the same time, somewhat of a Johnny Appleseed preaching this doctrine of village banking to anyone who would listen. As an adjunct to my consultancies in different places, I would just teach a little weekend workshop on how to start village banks. I started with Save the Children then Foster Parents Plan (now Plan Canada), CARE (Cooperative for Assistance and Relief Everywhere), Catalysis....

I was in no position to go expand this country-to-country, so I said, "Well, I'll share this with organizations that do have the resources." So, that's why I began to deliberately do these workshops, and over the course of the next four to five years I had the participation of every US-based nonprofit that today does village banking around the world. It was open-sourcing. I didn't realize I was doing open-sourcing. My colleagues at FINCA have, for years, criticized me for having given away the technology and having created the competition that FINCA now has today. Now, worldwide, there are an estimated 800 village banking programs that have basically used the FINCA methodology of village banking that I taught as their starting point. They've all adapted it extensively too, but I'm saying that, "What a way to massify! Give it away!"

*MC: What do you see as your greatest failure?*

JH: In the early days of a program in El Salvador - in its third year - there was a massive default. That reverberated, not only throughout the FINCA empire, but to all the people who were coming in to look at this. We were totally upfront about it, and as a result we won a lot of respect. That taught FINCA to get seriously into the design of management - mechanized management information systems - and really put more strict control on loan repayments. That became FINCA's passion

starting the second ten years of our existence. We have been one of the strongest institutions in the microfinance movement in terms of very strict controls on every single bank and the monitoring of delinquency on a weekly basis. Managerially, I think FINCA has created a paradigm that has gone through the movement of microfinance and had as much of an impact as even the methodology itself.

*MC: So, what is the next challenge for the movement?*

JH: There are a number of them. I think the larger part of the movement is not targeting the poorest of the poor, but the next level up - people living on one to two dollars per day - instead of those living on less than a dollar per day.... You'd do the same thing if you were a field officer and being paid a bonus for the number of clients you supervise.... That'll be the first major challenge, and then the second area of challenge has to do with youth. We're finding that we've totally overblown the benefits of microfinance. We talk about brave mothers keeping their kids in school and feeding their families better...and that's happening. We may have won the first battle in this war against poverty by getting the mothers cranked up, and they did what they had to do, but once they get their businesses rolling, they're not creating jobs either. These are mostly owner-operated businesses. So, where are the young people going to have a chance?

I have two specific recommendations that I think every MFI can do that will help alleviate this question of youth unemployment. The first is that they should have censuses of all their borrowers so they know how many of the borrowers have children who've completed high school. With that, we should be hiring those kids to become our credit officers.... And the second one is that we need to start expanding the focus from the mothers to the children with larger loans for a business that can create multiple jobs and that targets the children. If they've been a great client, then their oldest unemployed child gets preferred for a loan. But, the mothers themselves should be used as co-signors on the loans of their children. We can work from our strengths: keep lending to the mothers, but at the same time expanding it to the next generation. ♦♦♦

## PAPER WRAP-UPS

### A Billion to Gain? - The Next Phase

*By Matthis Bouüaert, published by ING, March 2008, 68 pages, available at [http://www.ingmicrofinance.com/uploads/ul\\_A%20Billion%20to%20Gain%20-Next%20Phase,%20March%2008%20Adobe%207.pdf](http://www.ingmicrofinance.com/uploads/ul_A%20Billion%20to%20Gain%20-Next%20Phase,%20March%2008%20Adobe%207.pdf)*

The study covers 17 of the world's largest global institutions involved in microfinance. Outstanding wholesale loans by international banks to microfinance institutions (MFIs) increased in 2007 to USD 1.4 billion from USD 500 million in 2006. A significant increase in loans to African MFIs contrasts with 2006 findings showing activity concentrated in India, Peru, Bolivia and Bangladesh. Geographical preferences result from a retail presence requirement and historical and linguistic ties to banks' home countries. For example, the growth in Sub-Saharan Africa is attributed to the involvement of French banks, such as BNP Paribas, Société Générale and Crédit Agricole. Banks are,

however, widening their geographical scope as their microfinance activities mature, with about one third of banks studied engaged in global microfinance. There was also a sizeable gain in local currency loans by global banks, thus reducing MFIs' currency exchange risk. All but one of the participating banks' funds provide loans and debt securities in both local and hard currencies.

Microinsurance, primarily limited to life insurance, has been slow to penetrate the market. Munich Re Foundation attributes this to high administrative expenses and difficulties balancing premiums with claims. The paper cites Allianz, AIG, AXA, ICICI, Munich Re and Swiss Re as the best-known institutions providing microinsurance. Meanwhile, MFIs have insured 6 million, including leader ICICI Prudential (India) with 650,000 clients.

Retail microloans are offered by only five banks, all via local networks. Examples include the leader Santander with USD 125 million in outstanding loans and Barclay's Susu in Ghana.

### Morgan Stanley's Approach to Assessing Credit Risks in the Microfinance Industry

*By Miguel Arvelo et al, published by Morgan Stanley, March 2008, 13 pages, available at: <http://microfinancegateway.org/content/article/detail/48444>*

A provider of investment banking, securities and investment management services, Morgan Stanley (MS) describes its system to assess the credit risk of microfinance institutions and inherent microfinance challenges such as country risk, data availability and minimal default history.

The paper lists seven rating factors, weighted as indicated: loan portfolio (24%); profitability, sustainability, and operating efficiency (23%); management and strategy (19%); systems and reporting (11%); operating procedures and internal controls (10%); asset-liability management (7%); and growth potential (6%).

The paper also highlights several potential pitfalls to avoid when implementing the formulaic approach.

## PAPER WRAP-UPS (Continued)

### Capital Markets: A Long-Term Solution to Financial Freedom

*By Gil Crawford and Lauren Clark, published in the Inter-American Development Bank's Microenterprise Development Review, July 2007, 11 pages, available at [http://www.microvestfund.com/docs/microenter\\_dev\\_%207-16-07.pdf](http://www.microvestfund.com/docs/microenter_dev_%207-16-07.pdf)*

This paper focuses on the lack of funds available to microfinance institutions (MFIs) and how the global capital markets are becoming a viable solution to this shortage. The authors point out that market demand for microfinance services vastly outstrips supply. "Ideally, an institution would tap into local financial markets...in the form of deposits," they write. However, they note that capital requirements, infrastructure and proper governance often prevent MFIs from accessing local deposits. The authors continually stress that, although many MFIs have depended on nonprofit sources in the past, donors will never satisfy the market.

The benefits of investing in MFIs include perceived low correlation to other markets, higher growth and compelling risk-return indicators. However, the industry is not widely perceived as an investment-worthy asset class due to the shortage of publicly traded MFIs, high risk and "the lack of a comprehensive standardized reporting system." Mr. Crawford presents his approach to MFI analysis using the "three Cs of due diligence:" Country, Character and Credit. "Country" refers to an investor's desire for a stable, supportive local environment. When evaluating "Character," an MFI's total management situation should be reviewed including onsite meetings. Thirdly, onsite reviews examine operations, employee credentials, controls, risk management and other factors that form the "Credit" image of the MFI.

The authors then transition to investment instruments, which are becoming feasible as facilitators of the supply of microfinance funds, including: syndication, the practice of utilizing several different lenders to fund a single loan, and multi-tranche international collateralized debt obligations (CDOs), investment-grade securities backed by asset pools. The authors also mention that private equity investment in microfinance is increasing, and the importance of initial public offerings (IPOs), which can provide better access to capital allow for the exit of early "angel investors".

The article concludes that, "commercialization supports the sustainability of MFIs"; which can be facilitated via management improvements and the use of investment-attractive procedures and language.

### Should Access to Credit Be a Right?

*By Marek Hudon, published by Solvay Business School, January 2008, 24 pages, available at: [http://www.microfinancegateway.org/files/41718\\_file\\_41718.pdf](http://www.microfinancegateway.org/files/41718_file_41718.pdf)*

The paper begins by reviewing arguments for credit as a basic moral right. One claim is that access to credit is an effective means to achieve other rights such as food, shelter and health by providing a means to generate income. Thus, credit could be considered a necessary companion to other rights. Furthermore, realization of the "right to work" often means self-employment through microenterprises, which affordable credit can facilitate. Other arguments include that access to credit is central to economic development and that the public and financial sectors have a moral responsibility to provide credit considering the socio-economic effects its inaccessibility.

One criticism focuses on lenders' rights as opposed to those of the borrowers. In other words, the right to credit could violate the rights of financial institutions by forcing them to lend when they would normally not be willing. Furthermore, universal access to credit would likely require government intervention, which could distort the market, create inefficiencies and jeopardize the ultimate goal. In essence there is mismatch between the demand and supply sides of credit.

Another concern is that credit has the potential to inflict over-indebtedness upon borrowers or expose them to unscrupulous lenders' abusive practices. Others question the link between credit and development suggesting that expanding access indirectly by improving borrowers' credit eligibility (via education for example) is perhaps better than blindly providing universal access.

The author concludes that access to credit is not a basic economic right. However, it argues that credit should be a moral right in a "goals-right" system, whereby the "right to credit would not be a binding constraint but rather a high priority goal."

### Benchmarking Microfinance in Eastern Europe and Central Asia 2006

*By the Microfinance Information eXchange (MIX), November 2007, 20 pages available here at: [http://www.mixmbb.org/Publications/002-REG/EASTERN%20EUROPE%20AND%20CENTRAL%20ASIA%20\(ECA\)/01-ECA%20Benchmarking%20Reports/ECA%20Benchmark%202006%20Final%20EN.pdf](http://www.mixmbb.org/Publications/002-REG/EASTERN%20EUROPE%20AND%20CENTRAL%20ASIA%20(ECA)/01-ECA%20Benchmarking%20Reports/ECA%20Benchmark%202006%20Final%20EN.pdf)*

Studying data from 170 Eastern European and Central Asian (EECA) microfinance institutions (MFIs), the authors determine that outreach increased by 35 percent to 1.75 million borrowers from 2005 to 2006. The region's total loan portfolio increased by 50 percent to over USD 4.5 billion. The most rapid growth occurred in the Balkans followed by the Caucasus and Central Asia. Outreach in the region increased by 25 percent as a result of the expansion of banks and non-bank financial institutions. MFIs with international support experienced the strongest development, making up 36 percent of total growth in the region. Local credit unions and NGOs saw little expansion.

In 2006, the EECA region demonstrated overall profitability with a return on assets of 1.25 percent and a return on equity of 5.35 percent. Portfolio-at-risk levels were among the lowest in the world due to careful management of delinquency, but may be a factor in the region's limited outreach.

The leading 25 MFIs accounted for more than two thirds of the market, representing 15 percent of registered institutions. Higher income European countries tended to have less competitive microfinance sectors, as commercial banks in these regions offered similar finance services at lower costs.

A lack of savings mobilization in the region's microfinance sector causes a reliance on international donors and investors. Development financial institutions, microfinance investment funds and commercial banks each provided between 25 and 30 percent of debt financing, with two-thirds of all financing coming from foreign sources.

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### Benchmarking Asian Microfinance 2006

By Scott Gaul and Hindi Tazi, published by the Microfinance Information eXchange (MIX), March 2006, 20 pages, available at: <http://www.mixmbb.org/Publications/002-REG/ASIA/01-ASIA%20BENCHMARKING%20REPORTS/Benchmarking%20Asia%202006.pdf>

Data from 194 Asian microfinance institutions (MFIs) shows the sector served over 35 million active borrowers with USD 6.97 billion in loans in 2006. While it represents only one-third of global borrowers, Asian microfinance serves two-thirds of total microloan clients. Asian MFIs also achieved scale in savings with over 47 million voluntary depositors, three-fourths of global microfinance savings clients.

The top ten percent of the sampled MFIs accounted for 80 percent of total borrowers. Bangladesh had the largest concentration of large scale MFIs with a median outreach of 173,000 borrowers.

Between 2005 and 2006, sampled institutions expanded their combined total outreach by 23 percent, with 5.6 million new borrowers. However, growth is skewed by a few large-scale institutions. India has the highest concentration of MFIs holding loan portfolios exceeding USD 15 million with five. These giant institutions saw an average growth rate near 100 percent in 2006. Rural banks had the lowest growth rates of nine and ten percent due to limited outreach, but made up the majority of deposit-taking MFIs.

Facing huge demand for financial services, Asian MFIs rely heavily on commercial loans to finance their loan portfolios. In 2006, the average sample institution financed 75 percent of their loan portfolio by borrowing from commercial banks. Only one percent of the loan portfolio was leveraged using client savings, due to legal deposit limitations across the region. The demand for deposit services was strong, however, and in markets where savings mobilization was not legally restricted, deposits were an important source of funds. In Indonesia, deposits made up 88 percent of MFI funds in 2006.

Microfinance institutions in Afghanistan, Pakistan, Vietnam and China struggled in 2006. For Afghanistan and Pakistan, high costs proved to be a challenge, while Vietnam and China have competition from government lending programs as their main obstacle.

Economies of scale had a huge influence on the operational efficiency of Asia's MFI sector in 2006. Once institutions reached a total loan portfolio of USD 2 million, they spent just 16 cents out of every USD in loans, less than two-thirds the operational cost of smaller institutions. Rural banks were the most efficient institutions on average, though their profitability remained low.

The Asian microfinance sector remains a largely untapped market, and institutions in the region are increasingly turning to foreign investors to fund expansion.

### The True Cost of Deposit Mobilization

By Rani Deshpande and Jasmina Glisovic-Mezieres, published by the Consultative Group to Assist the Poor (CGAP), December 2007, 13 pages, available at: [http://microfinancegateway.org/files/45789\\_file\\_THE\\_TRUE\\_COST\\_OF\\_DEPOSIT\\_MOBILIZATION.pdf](http://microfinancegateway.org/files/45789_file_THE_TRUE_COST_OF_DEPOSIT_MOBILIZATION.pdf)

The authors analyze the cost of deposits at five microfinance institutions (MFIs) using activity-based costing, which traces costs to specific products, to analyze the expenses involved in mobilizing deposits. Deposit costs include interest costs and administrative costs, which were broken down into opening deposit accounts, servicing deposit accounts, handling cash transactions and sustaining activities. The highest costs were sustaining activities (risk management, internal control etc.) and interest paid.

The Bangladeshi MFI's servicing costs were highest at 16.7 percent of total deposits, due to high use of roving deposit collectors. In contrast, the Filipino MFI serviced as many clients spending 1.2 percent of its deposit balance. Interest paid was a major cost for all MFIs investigated, varying from 17 to 80 percent of total costs. The three with interest making up the majority of total costs had the lowest overall deposit costs, with clients reaping the benefits of operational efficiency. While some institutions attracted clients with higher interest rates, others used lower interest costs to improve other products.

Not surprisingly, smaller accounts were less cost efficient than larger ones. The Peruvian MFI, with accounts under USD 100 spent more on servicing them (20-120 percent) than on administrative costs (7.1 percent). Even if savings are unviable - more expensive to an MFI than alternative sources of funds - savings can still be profitable by offering funds to loan out at a markup. Deposits can also benefit microfinance institutions by offering stability, reduced dependency on external borrowing, opportunities for cross-selling and client acquisition and retention. ♦♦♦



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