

MICROCAPITAL BRIEFS | TOP STORIES

Second SNS Institutional Fund Raises \$171m

SNS Asset Management (SNS) has closed its second institutional microfinance fund with a commitment equivalent to USD 171 million. Like the first fund, this fund is founded exclusively for institutional investors. Director Theo Brouwers commented, "With the launch of this second microfinance fund we also felt the consequences of the financial crisis.... [T]here are also parties that have postponed their participation until peace on the financial markets has been restored. Nevertheless, we have...exceeded our target...." SNS, a division of SNS REAAL of the Netherlands, manages assets of USD 28 billion. SNS has appointed US-based Developing World Markets (DWM) as investment manager for the fund. SNS holds a 10 percent participation in DWM. December 1, 2008

Norwegian Initiative Establishes Two Funds Totaling \$100m

The Norwegian Microfinance Initiative (NMI), a joint venture among several private institutions, the Norwegian Investment Fund for Developing Countries (Norfund) and the Norwegian Agency for Development Cooperation (Norad) has established two investment funds: NMI Global Fund and NMI Frontier Fund. *Continued on Page 2.*

Ghana to Allow Use of Social Security Accounts as Guarantees

Social Security and National Insurance Trust (SSNIT) Informal Sector Fund, HFC Bank Ghana Limited and Bofo Microfinance Services Limited have agreed to allow SSNIT members to use their account balances to secure loans from Bofo Microfinance. The membership of SSNIT's Informal Sector totals 20,000, but promises have been made to increase membership to two million. Four months after its establishment in 2007, Bofo reported a loan portfolio of USD 1.1 million and 450 borrowers. Bofo was established by HFC and CHF International, with support from the US Agency for International Development and the United Nations. December 2, 2008

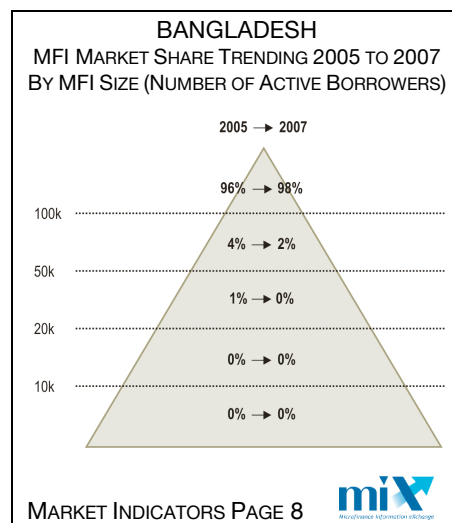
India's Ujjivan Raises Equity Worth \$18m, Offers Exit

Ujjivan Financial Services, an Indian microfinance institution, has raised the equivalent of USD 18.7 million, bringing its total paid up capital and reserves to USD 21.5 million. Much of the capital was invested by existing shareholders such as Unitus Equity Fund (UEF), Bellwether Microfinance Fund and Michael & Susan Dell Foundation. Five new investors in the private placement include Sequoia Capital, Lok Capital, UEF II, India Financial Inclusion Fund and the Small Industries Development Bank of India. An interesting element of the deal offered investors the liquidity via a buyout at market price by Bellwether Microfinance Fund and UEF. Ujjivan reports 56,000 active borrowers, all women. Before this capitalization, Ujjivan reported to the Microfinance Information Exchange total assets of USD 10.2 million, a debt-equity ratio of 332 percent and a return on equity of -47 percent. November 21, 2008

World Bank Provides \$200m for Vietnam Rural Finance

The World Bank has pledged to provide USD 200 million to improve Vietnamese farmers' access to finance. The so called "Vietnam Third Rural Finance Project" will get an additional USD 79.29 million from the Vietnamese government, participating credit institutions and retail borrowers. The project will provide loans for investments in productive assets and working capital needs for enterprises with up to 50 employees. This five-year project follows two previous similar projects, which totaled USD 348 million. November 18, 2008

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MICROCAPITAL BRIEFS

Microfinance Thailand Optimistic Despite 100% Repayment

The website Microfinance Thailand recently reported that, "Here in Thailand, despite a struggling economy, microfinance institutions (MFIs) are not feeling ill effects. In fact, Common Interest Foundation in Chiang Mai is still seeing a 100 percent repayment rate on its loans to member Village Banks.... Microfinance is resilient to financial crises like the current credit crunch in part because of the more intimate relationships MFIs have with borrowers...." We might be more likely to buy this argument were it not from a source that puts stock in statistics as dubious as 100 percent repayment rates. December 15, 2008

Mozambique Government Launches \$1m Rural Fund

The Bank of Mozambique has launched the "Access Finance Challenge Fund" (AFCF), which will finance efforts to expand financial services in rural areas, with support equivalent to USD 1 million from German development bank KfW. Both microfinance institutions (MFIs) and commercial banks will be eligible to access the funds, which are intended to promote the use of international financial reporting standards, to integrate MFIs into the national payments system and to introduce innovative financial products in the countryside. December 15, 2008

IFC Funding Jordanian Credit Bureaus

International Finance Corporation (IFC), a member of the World Bank Group, has committed to work with Jordan to establish a legal framework for credit bureaus. IFC will also help raise awareness of the economic benefits of credit reporting as part of a larger effort that also covers corporate governance for banks and SME management training. December 15, 2008

Financial Predicaments in Rural China

China Business Feature recently reported on the work of a team backed by HSBC and Tsinghua University School of Economics and Management as it explored the trials of accessing financial services in China's rural areas. For a detailed account please visit MicroCapital.org. December 11, 2008

Cameroon's Microfinance Industry in Need of Regulation?

Cameroon's growing microfinance industry is in need of regulation to become effective in the fight against poverty, according to an Inter Press Service report. Key impediments cited included a lack of cooperation between banks and microfinance institutions (MFIs), MFIs operating outside of the law and a lack of effective regulation. One study concludes microfinance in Cameroon makes up 44 percent of the financial sector and covers 287 localities, as compared to 15 by commercial banks. The national government is organising training seminars for MFI staff and working with the African Development Bank on a revolving fund. Assessments of MFIs as "unprofessional" may stem from confusion over their regulation by three different bodies: the national government, the Economic and Monetary Community of Central Africa and the Organization for Harmonization of Business Law in Africa. Is the sector over-regulated or under-regulated? December 10, 2008

Social Entrepreneurs Turn Business Sense to Good

A recent *BusinessWeek* article on social entrepreneurship calls the field "an industry just starting to take shape. Think of the early days of autos or computers, when startups tried a variety of approaches to see what worked best." The article cites a range of big names in microfinance. It also covers, "A group spearheaded by Acumen Fund [that] has begun gathering an ocean of information into one massive, easily accessible database. That way, results can be monitored by the funders and investors, and social entrepreneurs can see how they stack up with their peers." December 10, 2008

MicroFinanza Completes 114 Credit, Social Ratings of MFIs

MicroFinanza Rating (MFR), a rating agency that specializes in microfinance, reports having performed eight credit ratings in Ecuador for the Superintendence of Banks and Insurance during the third quarter of 2008. Overall, MFR has carried out 96 credit and performance ratings and 18 social ratings since January 2008. December 10, 2008

Mobile Finance Innovations Made in the Street

Technology monthly *PCWorld* recently published an article by Ken Banks pointing out that sometimes the best new technologies "exported" to Africa are in fact invented by users in Africa before being officially offered by service providers: "Services such as Call Me - where customers on many African networks can send a fixed number of free messages per day when they're out of credit requesting someone to call them - came about as a result of people 'flashing' or 'beeping' their friends (in other words, calling their phones and hanging up to indicate that they wanted to talk)." In another example, "Increasing numbers of African users were already carrying out their own form of money transfers through their mobiles long before any official service came into being. (SENTE, from Uganda, is one of the better known indigenous 'systems.') What [Kenyan mobile money transfer service] M-PESA has done is formalize and scale this kind of activity and bring it fully to market. Its impact has been spectacular, with around 3 million registered users since launch in March 2007 and about KES 8 billion (USD 106.8 million) changing hands every month." December 10, 2008

Norwegian Initiative Establishes Two Funds Totaling \$100m

Continued from Page 1. A total of USD 100 million has been committed by the owners, with Norfund funding half of this amount. The funds are expected to make their initial investments during the first quarter of 2009. NMI Global Fund will invest in more mature microfinance institutions through other investment funds. The NMI Frontier Fund will invest in new and emerging microfinance institutions via direct investments as well as through other funds. Specific countries or geographic areas of focus were not named. December 9, 2008

Unitus, Whole Planet to Partner with Jamii Bora Trust of Kenya

Unitus and Whole Planet Foundation (WPF), an affiliate of US grocer Whole Foods Market, will support Kenyan microbank Jamii Bora Trust in expanding to rural coffee-growing regions. The amount of funding was not disclosed. Jamii Bora has 170,000 members and 86 branches. WPF has authorized USD 7.9 million in grants to its microfinance partners. Whole Foods Market's 2007 net income was USD 182.7 million. December 9, 2008

Kenya Women Finance Trust Seeks Regulated MFI Status

The Kenya Women Finance Trust (KWFT) has announced plans to become a regulated microfinance institution by 2009. Established in 1982, KWFT provides loans for business, education and emergencies, as well as health insurance through its Afya Card. KWFT reports serving 250,000 women through 140 offices, with USD 60.1 million in total loans outstanding as of yearend 2007. December 9, 2008

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

Arab Microfinance Market Estimated at \$5.5b

With an estimated total market of USD 5.5 billion, the Arab microfinance industry remains largely untapped, according to multiple Arab-based newspaper reports that followed the recent 2008 Arab Microfinance Investment Symposium. Using statistics from the 2007 Sanabel Annual Industry Survey and the World Bank Global Monitoring Report 2007, it was calculated that the current 2.9 million clients make up less than four percent of the potential borrowers in Arab countries and that the untapped market for microfinance is valued at USD 3.96 billion. Of course it should be noted that the microfinance community is renowned for overestimating demand for its services. December 8, 2008

Financial Times Chronicles the "Soul of Microfinance"

Tim Harford's "The Battle for the Soul of Microfinance," which appeared recently in the Financial Times, concludes thusly: "Yet this is also a dangerous moment. Microfinance is a way of harnessing market forces to bring basic financial services to the poor, but many microfinance institutions do much more than that. Using donor funds or reinvested profits, coupled with their reach into remote villages, they provide subsidised education, healthcare and business advice. There is a risk that commercial logic could threaten these subsidised services by repelling donors or poaching the best customers. There is also the risk that competition misfires, leaving the poor paying higher interest rates, rather than lower ones." December 8, 2008

AccessBank of Azerbaijan Borrows \$50m from KfW, EBRD

Having just received the first USD 12 million tranche of a USD 22 million loan from German development bank KfW, AccessBank of Azerbaijan has now signed a syndicated loan for USD 28 million led by the European Bank for Reconstruction and Development (EBRD). USD 20 million is being provided for a three-year term, with the remainder being provided for a term of 18 months with an option to extend for a further 18 months. EBRD attempts to build market economies and democracies Eastern Europe and Central Asia. AccessBank reports disbursing 4,000 business loans worth USD 20 million per month. AccessBank is owned by EBRD, International Finance Corporation, Black Sea Trade and Development Bank, KfW, AccessHolding and LFS Financial Systems. November 21 and December 8, 2008

Microfinance International Takes Legatum FORTUNE Prize

The USD 1 million Legatum FORTUNE Technology Prize will be shared by Comat Technologies and Microfinance International. The prize honors individuals and organizations whose application of technology solutions has demonstrably improved the quality of life of impoverished populations. Comat Technologies facilitates access to information such as citizen records and entitlement benefits and provides skills training and educational services in rural India. Microfinance International provides payment solutions that serve the unbanked by linking financial institutions and remittance senders and recipients. December 8, 2008



Harvard Business School (HBS) and ACCION International invite you to apply for high-level strategy and leadership training for those shaping the microfinance industry—including CEOs of leading microfinance institutions and executives of mainstream banks.

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EXECUTIVE EDUCATION

Botswana's Letshego Holdings to Raise \$43m

Microfinance institution Letshego Holdings is planning to raise the equivalent of USD 43.26 million through a share preference scheme that will allow existing shareholders to buy shares at a discount for a limited period. This plan is in addition to the USD 123.6 million Letshego previously announced plans to raise for expansion. With operations in five countries, Letshego of Botswana reports assets of USD 85.2 million and liabilities of USD 29.7 million. As of December 2007, Letshego's major shareholders included the International Finance Corporation, the Netherlands Development Finance Company (FMO), Sanlam, Investec and Kingdom Zephyr. December 8, 2008

Asia-Pacific Economic Cooperation Pledges Support for SMEs

Several members of Asia-Pacific Economic Cooperation (APEC), an organization of 21 countries that focuses on trade and investment, recently pledged to continue financial support for the development of small and medium enterprises (SMEs) in the region. At a recent meeting in Lima, Peru, several representatives jointly pledged to combat the credit crisis and to shore up economic growth by supporting efforts to ensure that SMEs and other businesses obtain adequate capital. Additional proposals covered technological infrastructure, financing-capacity building, training and other measures to sustain and promote SME employment and stability. December 8, 2008

Is BYU the Backbone of Microfinance?

A lazy reporter from *The New York Times* this month called Brigham Young University (BYU) of Utah, USA, "the backbone of microfinance". While an absurd characterization, it does not detract from the good work of BYU's Economic Self-Reliance Center, which was founded in 2003. In the Paper Wrap-up section of this issue, we highlight recent papers published in the quarterly *ESR Review*, formerly named the *Journal of Microfinance*. December 5, 2008

Emerging Capital Partners Invests \$28m in Financial BC of Togo

Emerging Capital Partners (ECP) has purchased a USD 28 million stake in Financial BC SA (FBC), a privately held commercial bank based in Togo. FBC will use the funds to expand its presence in central and western Africa. FBC currently offers retail and institutional banking in Benin, Togo, Gabon, Chad and Guinea. In 1998, the bank established FINADEV to run its microfinance operations, but no data has been made available on this subsidiary since 2004. FBC serves 11,000 clients and has a total asset base of USD 350 million. Established in 2000, Emerging Capital Partners has raised over USD 1.5 billion for investment in Africa through six funds. December 5, 2008

Newsweek's Gross Calls Subprime Loans "Risks Worth Taking"

Daniel Gross recently argued in the US magazine *Newsweek* that, "conservative economists and editorialists have tried to pin the blame for the unholy international financial mess on subprime lending and subprime borrowers.... Fox Business Network anchor Neil Cavuto in September proclaimed that 'loaning to minorities [members of minority racial and ethnic groups] and risky folks is a disaster.' ... This line of reasoning is absurd on several levels.... But the best refutation may be provided by... Clearinghouse CDFI.... Since 2003, this for-profit firm in Orange County - home to busted subprime behemoths like Ameriquest - has made USD 220 million in mortgages.... More than 90 percent of its home loans have gone to first-time buyers, about half of whom are minorities. Out of 770 single-family loans it has made, how many foreclosures have there been?... Seven." December 5, 2008

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Microinsurance Challenges and Solutions in West Africa

Nigeria's *Business Day* recently cited high administrative costs and potential consumers' lack of knowledge about insurance as top obstacles to coverage for poor people in Africa. Mike Ikupolati of the West African Insurance Institute argues that insurance companies set up by mutuals or cooperative societies are better prepared to serve poor people. Traditional insurance companies may also find success offering small-scale loan guarantee policies, credit guarantee policies, retirement policies for the self-employed and injury coverage. Josephine Amaoh, Ghana's Commissioner for Insurance, observed that insurance products have better penetration when offered through "alternative" distribution channels such as microfinance institutions, community organizations, retailers, churches and cell phone companies. December 4, 2008

IFC Loans \$2.1m to Corporacion Mundial de la Mujer of Columbia

The International Finance Corporation (IFC), a member of the World Bank Group, will provide the equivalent of USD 2.1 million to Colombia's Corporacion Mundial de la Mujer de Medellin (WWB-Medellin) to support the bank's expansion. This is the second financing package of the same amount committed by IFC to WWB Medellin this year. WWB Medellin is member of the Women's World Banking network. Founded in 1985, the bank reports 66,000 active borrowers and USD 68.2 million in loans outstanding. December 2, 2008

Mercy Corps, Acumen Fund Recognized by Fast Company

Fast Company magazine has named Mercy Corps and Acumen Fund as two of its eight Social Enterprises of the Year. Mercy Corps is praised as "the bank of banks" for buying a struggling Indonesian bank and reopening it to provide capital, financial tools and technology platforms to thousands of microfinance institutions. This not to be confused with *Fast Company's* Social Capitalist Awards which recently went to Mercy Corps, ACCION International and others. December 2, 2008

Developing World Markets, AXA Take Shares in MicroCred

MicroCred, an investment company that builds microfinance institutions (MFIs), has approved a capital increase that will include investments from a new shareholder, Developing World Markets (DWM) and a founding shareholder, AXA Belgium. DWM will take a 22 percent stake in the company, while AXA Belgium will increase its shareholding to 25 percent. Founded by PlaNet Finance, MicroCred reports equity capital of USD 23.2 million. Fund manager and investment bank DWM reports disbursements of USD 350 million to MFIs since 1994. December 1, 2008

Following Pack, New York Times Confuses Charity, Making Loans

Fomenting an increasingly common misconception, flagship US daily *The New York Times* recently reported that teenagers from a wealthy school in Las Vegas, USA, are the first ever secondary school students "to operate a microbank." With no disrespect to these well-meaning youth, operating a microbank is very different than selling lunches to classmates to raise money for a charity. Of course, the very reason the rich country public is fascinated by microfinance is that it is NOT a charity. Money is recycled, just like a business! Just like a business operated by borrower working hard to repay an expensive microloan! While it may (or may not) be laudable to sponsor a microloan over the internet or via a sandwich sale, actually operating a microbank involves starkly distinct activities, such as motorbiking through torrential rains to see a client, guarding the door of a branch office in a semi-lawless area or maintaining a human resource manual for 10,000 bank staff. For students in rich countries to actually operate a microbank, they will either have to travel far or simply walk down to their local credit union, cooperative or community investment fund. December 1, 2008

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MEDA Fellows Tap Corporate HR Expertise for MFIs

Mennonite Economic Development Associates (MEDA) has launched the Human Capital in Microfinance Fellows Program to take senior-level corporate human resource (HR) expertise to microfinance institutions (MFIs) around the world. MEDA argues that a lack of HR systems and a dearth of management skills are major barriers to MFI effectiveness. After training together for several days, the first fellows will be dispatched to Cambodia, Pakistan and Haiti. December 1. 2008

Indian Microfinance Grows Furiously But Ignores North?

According to a recent article on India's State of the Sector Report 2008 in India's fortnightly *Business Today*, "microfinance continues to grow fast and furiously.... The level of optimism in the last two years has rarely been witnessed...." However, there remains a "continuing skew in favour of the [relatively rich] southern region." November 30. 2008

Microinsurance Innovation Facility Offers Research Grants

Over the next four years the International Labour Organization's Microinsurance Innovation Facility will offer 40 research grants of USD 10,000. Applications for the first round are due January 29. November 30. 2008

DataX Credit Provides Non-Traditional Credit Data

In a move borrowed from microfinance in poor countries, short-term lender CashNetUSA announced that it will receive non-traditional credit data from US-based DataX Credit Reporting Agency. Using payment histories from sources including the private Automated Clearing House (ACH) bank network, DataX offers data on consumers who have been traditionally underserved by formal credit bureaus. November 28. 2008

Kenya's K-Rep Bank Records Loss, Receives New Capital

Recording a loss equivalent to USD 2.6 million, Kenya's K-Rep Bank blamed post-election violence and massive investment in the bank's technology infrastructure. Shareholders have injected an additional USD 12.7 million, which will be used to create new products to increase the bank's market share and further develop infrastructure. Top shareholders include K-Rep Group (25 percent), International Finance Corporation (16.7 percent), the African Development Bank (15.1 percent), Triodos (11.0 percent) and Kwa (ESOP) (10.0 percent). Founded in 1984, K-Rep reports 153,000 borrowers, assets of USD 110 million, a debt-equity ratio of 591 percent and return on assets of 2.2 percent. November 27. 2008

When Only Big Firms Maintain Liquidity; Clients Switch

According to a recent Livemint.com interview with SKS Microfinance CEO Vikram Akula, SKS - a large microfinance institution (MFI) - is acquiring customers of small and medium MFIs that are finding it difficult to raise funds. Mr Akula is quoted as saying, "In the current environment, capital is flowing to quality, and this is affecting the small and medium MFIs." November 26. 2008

Cisco Participating in Indian Entrepreneurship Pilot Project

Cisco Systems, the Small Industries Development Bank of India (SIDBI) and Tiruchirappalli Regional Engineering College-Science and Technology Entrepreneurs Park (TREC-STEP) have arranged a scheme whereby SIDBI will provide finance to small technology businesses in India, which will be run by Cisco Networking Academy students and alumni. Cisco will subsidize interest repayment and guarantee fees on the loans, and TREC-STEP will provide customized training and mentoring to participants. The Cisco Networking Academy Program, aimed at nurturing IT professionals, is a partnership between technology giant Cisco Systems and education, business, government and community organisations from around the world. November 26. 2008

Acumen Fund Invests \$2.9m in Pakistan

Acumen Fund, a venture capital fund that invests in sustainable development, has announced an investment of USD 1.4 million in Pakistan's First Microinsurance Agency (FMiA), which is backed by the Aga Khan Agency for Microfinance. Acumen will also place a USD 750,000 equity investment and a USD 750,000 loan with Kashf Holdings Private Limited (KHL), a Pakistani holding company providing financial services to low income households. Founded by The Rockefeller Foundation, Cisco Systems Foundation and individual philanthropists, Acumen reports having approved investments of USD 34 million in Africa and Asia since 2001. November 25. 2008

Lok Capital Capital Invests \$798k in Jagannatha of India

Lok Capital LLC has invested USD 798,000 in Jagannatha Financial Services Limited of India. Since its launch in 2006 by Lok "promoter" Mr S Kathiresan, Jagannatha reports having disbursed a total of USD 14 million in loans to 80,000 borrowers. November 25. 2008

MasterCard Foundation to Fund \$19.6m BRAC Uganda Expansion

MasterCard Foundation, based in Canada, is funding a USD 19.6 million expansion in Uganda of microfinance institution Bangladesh Rural Advancement Committee (BRAC). The effort will attempt to reach 2 million people, expand BRAC's Ugandan branch network from 34 offices to 85 and evaluate the feasibility of transforming into a deposit-taking institution. Specialized services will also focus on training for agricultural workers and girls. In Uganda, BRAC reports 48,000 members and USD 8.3 million dispersed in loans. Worldwide, BRAC reports 110 million people served, total assets of USD 619 million and a debt-equity ratio of 384.22 percent. November 25. 2008

European Investment Bank Donates \$2.7m to Advans, Horus

The European Investment Bank has donated the equivalent of USD 2.7 million to Advans SA SICAR, a privately owned investment company, to fund technical assistance to be provided by Advans' sister company Horus Development Finance. The consulting will benefit greenfield microfinance institutions affiliated with Advans in Cameroon, Ghana, Democratic Republic of Congo and Tanzania. November 25, 2008

UN Chief Says Bangladesh to Become Middle Income Country

On a recent visit to Bangladesh, United Nations Secretary-General Ban Ki-moon predicted that Bangladesh will become a middle-income country in the next ten years. It is reported that, despite its vulnerability to natural catastrophes, per-capita income there has not fallen in a single year since 1990. Some will no doubt attribute this to the country's highly developed microfinance industry. November 24, 2008

Is Microfinance Boosting Asian Banks Against Financial Shock?

Sri Lanka's *Daily News* has reported that Rajendra Theagarajah, CEO of Hatton National Bank, believes that microfinance in Asia has provided a buffer against the global financial crisis. November 24, 2008

Record \$3.6m Lent to Microfinance Intermediary Kiva

Lenders to online microloan broker Kiva lent a record USD 3.8 million in October, the highest loan monthly volume to date. Since its inception in 2005, Kiva's 364,000 lenders have lent USD 50.2 million to entrepreneurs in 42 countries via 93 partner microfinance institutions. November 24, 2008

Another GrameenPhone? Telenor Pakistan Acquires MFI

Telenor Pakistan, a subsidiary of Norwegian communications company Telenor, is acquiring 51 percent of Tameer Microfinance Bank Limited for the equivalent of USD 12.5 million. Tameer uses mobile banking to reach many of its 85,458 borrowers, who have historically traveled long distances to perform transactions. Telenor also owns a 62 percent stake in GrameenPhone, which as Bangladesh's largest provider of cell phone services is planning an IPO worth USD 75 million. November 24, 2008

S&P Report Looks At Industry's Changing Strategies

A report from Standard and Poor's Rating Services argues that, "Microfinance...appears to be on the path to becoming an emerging market asset class." Managing Director Andrea Esposito reports that, "Industry constituents have recognized the need to create globally accepted metrics." Articles in the special report include "A Global Ratings Methodology For Microfinance Institutions May Help The Industry" and "Market Perspective: Microfinance Institutions Reevaluate Their Growth Objectives Amid Global Turbulence". November 24, 2008

Filipino Globe Telecom to Partner with CGAP on Mobile Banking

Globe Telecom, the second-largest telecommunications company in the Philippines, has announced a partnership with World Bank think tank CGAP (Consultative Group to Assist the Poor) to utilize mobile banking technology in poor, rural provinces. Specifically, Globe's subsidiary G-XChange intends to expand its GCASH service, which offers remittance, payment and salary collection services by mobile phone. November 24, 2008

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Global Partnerships Launches \$20m “Microfinance Fund 2008”

Global Partnerships (GP), a US-based nonprofit that funds microfinance institutions (MFIs) in Latin America, recently announced the creation of its Microfinance Fund (MFF) 2008, a USD 20 million microfinance investment fund intended to aid the rural poor by offering longer term loans to MFIs. Seeking a return of four to five percent on a six-year note, the closed fund will expand GP's reach to 30 partners in eight countries. The fund's composition is split between USD 1.5 million in philanthropic equity and USD 18 million in private capital. The GP microfinance funds, including MFF 2005, MFF 2006 and other funds under management, saw a combined negative net asset balance of USD 7.3 million for fiscal 2007. November 23, 2008

Jordan Grants \$7.1m to Microfinance Institutions

Jordan's Ministry of Planning and International Cooperation has announced grants worth the equivalent of USD 7.1 million will be directed to “sustainable” microfinance institutions for rural expansion and other projects. November 21, 2008

Legatum Awards \$350k Prize to African Entrepreneurs

Private investment group Legatum, OTF Group and Social Equity Venture (SEVEN) Fund have awarded Legatum Pioneers of Prosperity Africa Awards to six African companies, which will share the USD 350,000 purse. November 21, 2008

FX Risk Management Group Cygma Sees Crunch as Opportunity

Cygma, which plans to launch FX hedging products for 60 difficult-to-hedge emerging markets currencies in early 2009, is hoping that the current financial situation will drive customers into its arms. Formed in 2008 as an offshoot of risk manager Chatham Financial, Cygma has been designed to focus on microfinance, with arms specializing in education, consulting and hedge fund execution. Cygma will take on the hedge exposure using its own USD 50 million fund, which is now being raised from sources such as development banks. November 20, 2008

Players Predict Credit Crisis Will Slow Microfinance Growth

Stories on how the global financial crisis might impact microfinance were released recently by Reuters and the World Bank. The Reuters article focuses on the impacts on microfinance institutions (MFIs) in South Asia, citing Siddhartha Chowdri of ACCION as saying the cost of funds for MFIs has increased. However Somak Ghosh, of Yes Bank is quoted as saying, “if banks could overcome the jitters, then the case for lending to MFIs...is stronger than ever...as their business model is a lower risk than large loans for a few big corporates, which are anyway seeing a slowdown.” Elizabeth Littlefield, CEO of CGAP (Consultative Group to Assist the Poor), authored the World Bank article, citing tighter financing conditions, currency pressures, more withdrawals and fewer savings. November 20, 2008

Ethiopian MFI Buusaa Gonofaa Wins Social Responsibility Award

Ethiopian microfinance institution Buusaa Gonofaa (BG) has won the Second European Microfinance Award, which includes prize money equivalent to USD 140,000. BG took this year's award, which was designed to recognise and reward standouts in the area of social responsibility, for its system for determining customer needs and evaluating changes in their social well-being. November 20, 2008

Social Impact Lures Investors

In *InvestmentNews*, Scott Budde of US-based retirement fund manager TIAA-CREF recently discussed the draw of “community and proactive investing,” which has a “direct, positive social impact,” as opposed to socially responsible investments (SRIs) that invest more broadly but screen out issues deemed to have negative impacts. November 19, 2008

Fransabank SAL, Ameen of Lebanon to Support SMEs

Fransabank SAL and microfinance institution Ameen, both of Lebanon, have created a partnership to offer small and medium-sized enterprises (SMEs) interest-free loans. 75 loans will be offered, totaling USD 78,851. Fransabank, a commercial bank active primarily in the Middle East, claims USD 7.2 billion in assets, of which USD 1.4 billion are listed as loans and advances. Established in 1998, Ameen reports 8,427 active borrowers, a gross loan portfolio of USD 7.3 million, a debt-equity ratio of 236.76 percent, return on assets of 1.52 percent and return on equity of 4.99 percent. November 19, 2008

John Deere Grants \$1.2m to Opportunity International for Africa

Opportunity International (OI) has received a USD 1.2 million grant from the John Deere Foundation to support operations in Malawi and Mozambique. OI will open four rural branches and mobile service centers, which are armored vehicles that offer most traditional branch services. OI reports serving 1.2 million borrowers. November 18, 2008

US-Based Grameen Foundation Presents Awards

US-based Grameen Foundation has recognized Grameen Bank's own Nurjahan Begum and two microfinance institutions: Al Tadamun of Egypt and Mitra Bisnis Keluarga Ventura of Indonesia at the Grameen Foundation's 2008 Awards in Washington. November 18, 2008

Partnership for Lebanon Announces New Initiatives

US technology company Cisco Systems will make a USD 1 million loan to microfinance institutions Al Majmoua and Ameen of Lebanon for on-lending to the technology sector. November 17, 2008

Vikram Akula to step down as CEO of SKS Microfinance

Vikram Akula, founder of SKS Microfinance, has announced plans to step down after ten years as CEO in order to focus on microinsurance. Suresh Gurumani, Director, Barclays Bank, will take over as CEO at an as yet undisclosed date. November 17, 2008 ♦♦♦



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GUEST EDITORIAL COPING WITH A CRISIS

Christian Ruehmer, Perfect Point Partners

The world of developed financial markets seems broken. Eighteen months ago the “subprime crisis” started, and a few banks were failing. Since then, bad news on the markets has been published daily. However, over the last weeks, the situation escalated with banks failing on a daily basis, Iceland’s financial system collapsing and liquidity disappearing completely.

What do microfinance institutions (MFIs) have to do with this? According to studies, microfinance is uncorrelated with other financial markets. Portfolios grow fast and public interest increases. Investors were chasing MFIs to allocate their funds and conferences were organized all over the world. Microfinance is deemed to be different. The worst-case expectation is that the crisis might slightly increase funding costs and provisions.

The dangerous nature of this crisis is that it spreads slowly. But when it hits, it hits hard and the consequences are brutal. Stock markets remained relatively stable for months into the crisis, but suddenly they fall worse than ever. Banks file for bankruptcy over weekends. It is no longer just a “subprime crisis.”

Let us assume that MFIs are not as unaffected as commonly expected. What will happen? Here are some potential trends:

1) Private funding sources do not slow down; they dry up completely! Currently the best companies in the world have problems finding liquidity, even short term. Existing microfinance funds will have problems raising more debt. New investors will be unable to convince their committees to invest in microfinance, as this is not the time to broaden investment horizons. Therefore, do not expect major new fund inflows for the next 18 to 24 months.

2) Remittance payments will shrink. According to FOMIN/BID 2008 remittances to Latin America have shrunk by 1.7 percent in real terms (“BID estima flujos de remesas a America Latina y el Caribe para 2008”, 3 October 2008).

3) In line with the overall economy, clients’ defaults increase. Also due to the crisis, clients will feel less obliged to pay loans.

Given those trends, the following can be expected:

1) More banks will be failing. This will also happen in developing countries. Depending on the quality of crisis management, bank runs are likely.

2) Similar to the US and Europe, also in developing countries “bail-outs” will happen. Nationalization becomes an option.

There is no time to complain about the situation. Let others be distracted with that. Act now with a series of prudent measures. As a qualified microfinance banker, you need to be able to sail not only on bright days but also in storms. This is the chance to show that your MFI is useful to your clients even in bad days. I suggest acting along the following lines:

1) Acknowledge that there is a serious crisis of incomparable size. Don’t only look at defensive tactical solutions. Also focus on more-strategic ways to solve shortages. Socially responsible funds might be able to support you in the short term as market-based funding ceases, but the industry’s growth plan was based on the supply of market-based funds. Alternatives need to be developed.

- Improve long-term liquidity planning. Ensure you negotiate extensions of funding early enough in order to avoid surprises. Some funding sources, like collateralized debt obligations, might not be extendable.

- Client deposits tend to be a less volatile funding source. If your regulatory environment allows it, start planning to introduce savings or term deposits.

- Be open for business combinations. An actively pursued consolidation can be positive for all participants and can result in a stronger MFI. A forced consolidation is often too defensive.



MICROFINANCE CENTRE
for Central and Eastern Europe and the New Independent States

2) Don’t be fixed to past growth goals, which were set under different macro-economic conditions.

- There is no need to push organic growth, if opportunities are unavailable. If the economic conditions become too risky, temporarily halt. There is no obligation to lend if the economic basis is not given. This is also true for nonprofit/charitable microfinance.

- By accepting more moderate or even zero growth, you also reduce pressure on your employees and avoid a decline of portfolio asset quality.

- It might be a good time to review indirect cost. Usually, phases of high growth beget indirect expenses. A review of those expenses and streamlining is necessary.

3) Intensify collaboration with your clients in order to better understand their financial situation and to support them.

- Offering additional services like financial education and risk management might be helpful to manage through critical situations.

- Products like health insurance can mitigate some problems during times of distress.

4) Get support through your network or through experienced consultants. Nobody expects you to be a natural born crisis manager. An external expert can serve as coach and can help in steering through a crisis and to avoid losing focus because of a myriad of day-to-day issues.

At this stage it is difficult to estimate to what degree the crisis in the developed markets will spill over to your institution. The severity might also be different from country to country and institution to institution. Yet, it was never more necessary than today to make prudent decisions about how to protect your institution and thus ensure that your clients, the ultimate reason for being a microfinance institution, suffer as little as possible. ♦♦♦

Christian Ruehmer has worked in microfinance since 2001. He is the founder of Perfect Point Partners (PPP) and focuses on risk management and efficiency management projects. The company has worked on several projects over the last two years in Europe and Central Asia. This article is reprinted from the Microfinance Centre (MFC) Newsletter “Microfinance in Central and Eastern Europe and the New Independent States”, Issue Number 3, 2008.



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MEET THE BOSS

*Christian Ruehmer is Co-Founder
of Perfect Point Partners and
Horizonte Ushpa-Ushpa.*

Christian Ruehmer

MicroCapital: Please tell us about your professional background and your involvement in microfinance.

CR: Over 19 years I have gained experience in the financial service industry in areas like treasury, risk and investment management. Eight years ago I participated in a microfinance project with a cooperative in Bolivia. My plan was use my knowledge to provide value in the development sector. I realized that the challenges for microfinance institutions (MFIs) and developed financial institutions are similar. Our team conducted other projects together and then founded Perfect Point Partners (PPP) in 2004.

MC: How do you describe the consulting company?

CR: PPP is based in La Paz and focuses on efficiency and risk management. There we have in-depth knowledge and have collected significant experience from working with close to 50 MFIs. Our strengths are our experience and our pragmatic approach when it comes to helping customers in challenging situations. We seek long-term relationships with clients to help them in periods of growth as well as crisis.

MC: You also founded the NGO Horizonte Ushpa-Ushpa. What is its work?

CR: My approach was always to employ money earned in consulting to support education programs for children. This turned out to be very exciting: starting with a daycare center for 120 children, we expanded to a full village development program within four years. The core is the education of children, which follows carefully developed plans. We knew from the beginning that we could only make a difference by emphasizing the quality of education. The teachers are very qualified and are supported by local assistants. There is a health care station serving the village of 5000. Solely based on private donations, we were able to construct the school building which, in its first stage, hosts 700 children from first to eighth grade. Key to our success is the integration of the village: the same building is used for adult training and evening school. The very challenging group of 14- to 21-year-olds finds opportunities in initiatives like a theater group, the village newspaper and computer training. Our microenterprise program supports professional education and interesting business initiatives.

MC: Is there a formal relationship between the two entities?

CR: The two initiatives are complementary. Learning from each other is essential for the teams in both entities. A consultant in PPP needs to understand how microfinance can achieve its mission and needs to learn the complexity of poverty alleviation in reality. The team at the NGO needs to understand the concept of "for-profit projects." This supports our goal that Ushpa-Ushpa become a middle class village that runs in a largely self-sufficient manner. On a personal level, my profits generated from PPP are donated to Horizonte.

MC: How are you managing having a full-time job, in addition to the consulting firm and running the charity?

CR: I guess I lack the time to think about how I manage that. I really like the work I am doing and the goals we have. It became more a concept of living rather than separate jobs. I am lucky that I have very competent and highly motivated teams. In the charity, we have over 70 employees who are managed by a Board; the consultants at PPP conduct the work in a very responsible manner and so does the team in my banking job. It is a mixture of setting goals and motivating people by developing a joint vision. Also being accessible and getting into details when necessary. I do enjoy eliminating the roadblocks that always come up and spending time to get to know the ideas and wishes of individual team members.

MC: Do you have anything to say about the current state of the industry in relation to the financial crisis?

CR: The greatest danger of a crisis is that it is not taken seriously. Many MFIs are slowing down or are stopping their aggressive growth plans, which is a good measure also because the quality of the loan portfolio deteriorates. MFIs that work closely with their clients and attempt to understand their problems will have more success as they create confidence.

MC: So the social mission is a competitive advantage in the marketplace?

CR: This is definitely true. In crisis situations it helps to collaborate closely and focus on social problems first. It also helps to revive non-financial values in the society. There are no easy solutions, and in the long run we need to develop better ways of supporting the clients, like providing equity or through other products and services.

***MFIs that work closely with their clients
and attempt to understand their
problems will have more success....***

MC: To wrap up, would you tell us a little about your upbringing and what influences your professional direction?

CR: I grew up south of Munich. This is a rather privileged part of Germany. My father was a mayor of our hometown for 26 years. He was running as an independent candidate with a protestant background in a region that has a reputation of being very conservative and Catholic. It taught me a lot about how to convince people through inspiration based on a solid factual knowledge. Maybe it is also interesting to mention that my main bank account is still with the local cooperative bank. When I bought my home in New York, they were able to approve the loan in no time, based on having known me for ages. This reminds me very much of microfinance, because their strength is and will always be the close knowledge of their customer. ♦♦♦

PIONEERS IN MICROFINANCE

Bambang Ismawan founded Bina Swadaya in Indonesia in 1967. The organization now works in microfinance, community empowerment, communications, community facilities and agribusiness & alternative tourism development.

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

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Bambang Ismawan

MicroCapital: How do you describe your work, your organization and its background?

BI: As I learned about business and economics in school, I started to realize I was not interested in these topics or politics either. This was a confusing time for me, but at one point I met a Catholic priest who was keen on working with the poor in a remote area. I wanted to understand what he was trying to accomplish, and later I also became involved with photography with the younger activists. There was a movement going on to empower people. Politically, there was tension between the parties, and economically, our country was very weak. The government did not have the support of the people, so as a student I felt it was our obligation to do something concrete for the people. I respected what the foreign Catholic operations were doing, but felt a true solution required domestic involvement.

MC: Were you raised a Catholic?

BI: I became a Catholic during secondary school. I was looking for a school in a rural area, and there were not many options. I resorted to a Catholic school, as that was all that was available.

MC: What was your town like? What did your parents do for a living?

BI: People worked as farmers and fishermen. Very few people worked in education or intellectual enterprises. This was mostly due to the type of education to which the local people had access. My father worked as a rice trader, and I worked with him often. This exposure helped me understand some entrepreneurship principles. This business funded my five brothers' and sisters' education. My parents believed that our education was tantamount to our success. My parents had very limited education, not even finishing primary school. In Indonesia, primary school is six years long, and my father only finished three years. But he was very interested in educating himself by any means necessary, through newspapers, radio and so on. He was very modern intellectually, all things considered.

MC: How has microfinance affected your work?

BI: Microfinance encouraged the activities of the people, linking the self-help groups (SHGs) with the local banks for various loan mechanisms. We fought with the central bank of Indonesia to formalize policy and encourage banking institutions to link their activities with the rural people and SHGs in 1986. Then in 1997, the Microcredit Summit was held in Washington DC, which I attended with about 50 other Indonesians. After that, I initiated with some friends an Indonesian movement for microfinance development.

MC: What does your operation look like?

BI: My organization is actually small in terms of numbers, about 150,000 members. We have about 3,000 SHGs we have been promoting. In Indonesia there are two kinds of players: commercial banks looking for major economic profit, and in rural areas banks that

cater to microfinance. All of these various approaches depend on the political climate, as the government is very dominant. Whenever we are trying to expand our activities, the government sees it as an attempt to increase control and that is a threat. So our activities are split into two primary delivery models. First we offer direct service to the people. Secondly, we lobby the government and aid in the organization, training and formation of these SHGs. Through this we are reaching roughly 25 million families.

MC: What is an important failure that you think can be learned from?

BI: The first is that initially we had a difficult time attracting competent and talented individuals due to the locations in which we were working and being unable to pay them as promised. As our work has become clear, this has changed for the better, but early on, it was frustrating to again and again start with new people. The second problem is related to how to build an understanding of money management in Indonesia. Not many NGOs are interested in working in financial education. Likewise, the media does not promote financial awareness here. We are trying to expand the knowledge base but it can be frustrating.

Not many NGOs are interested in working in financial education. Likewise, the media does not promote financial awareness here. We are trying to expand the knowledge base but it can be frustrating....

MC: What is the major challenge that you face in your work going forward?

BI: First, it is the mindset of the decision makers in microfinance. There needs to be a regulatory body overseeing the industry, because the banks are getting the funding, but they are not as interested in microfinance.

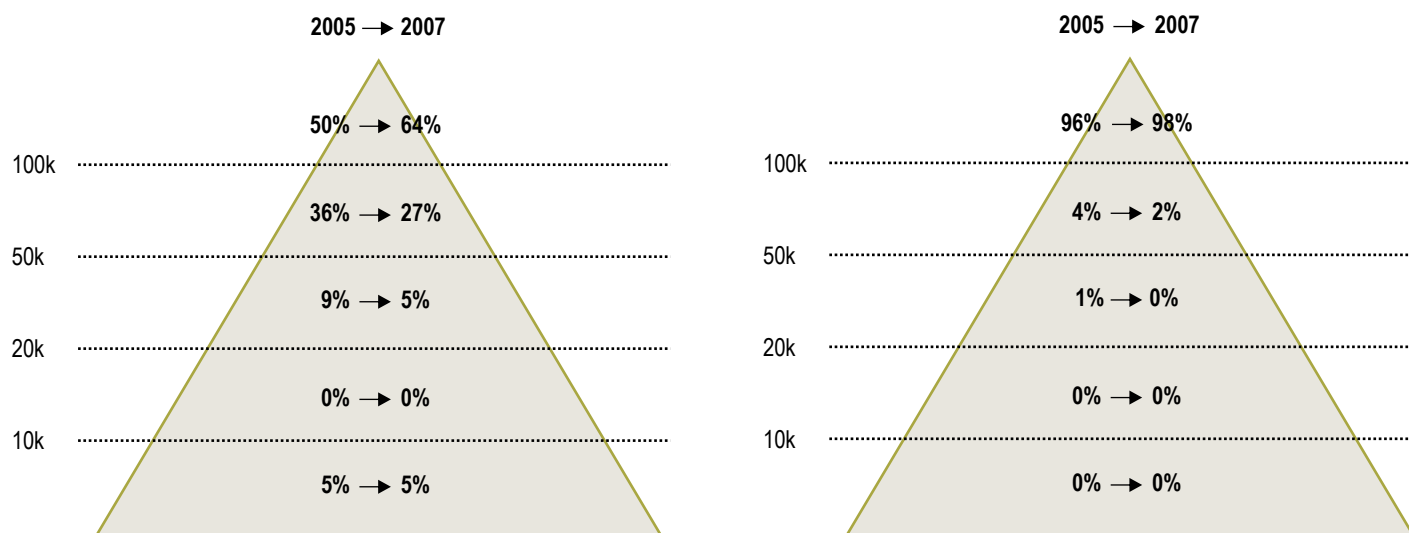
MC: What would you say has been your most important success in your career?

BI: Microfinance is one of our primary concerns. The other concern is related to increasing production. For the latter we publish a magazine, which has about 80,000 copies in circulation. We use the magazine to promote all sorts of business production, and we are also publishing books to this end. I think our ability to influence other institutions is a great accomplishment. Indonesia is scattered throughout 17,000 islands with over 220 million people. To fly from one side to another takes eight hours, so, for one organization attempting to impact such an immense population and area, it was very important for us to host the Microcredit Summit. This showed that we have become a major player in microfinance, and our government may be becoming a little more of an asset than a liability. In some ways, microfinance is still a new creature for us even still. ♦♦♦

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 22 MFIs REPORTING ¹
TOP 10 MICROFINANCE INSTITUTIONS (MFIs) BY GROWTH IN GROSS LOAN PORTFOLIO: CHANGE IN USD

MFI NAME	AVERAGE ANNUAL USD INCREASE	AVERAGE ANNUAL % INCREASE	2005	2007
BRAC	128,283,904	40.3	264,603,360	521,171,168
Grameen Bank	52,672,928	11.7	424,536,608	529,882,464
ASA	51,487,392	18.5	254,277,216	357,252,000
Society for Social Services (SSS)	6,344,578	36.5	14,705,637	27,394,792
Thengamara Mohila Sabuj Sangha (TMSS)	5,654,728	16.9	30,764,824	42,074,280
BURO Bangladesh	5,275,403	26.9	17,301,730	27,852,536
UDDIPAN	4,446,912	58.2	5,916,056	14,809,879
Padakhep Manabik Unnayan Kendra (PMUK)	3,926,031	37.8	8,729,074	16,581,135
Jagorani Chakra Foundation (JCF)	3,574,078	25.3	12,560,624	19,708,780
Rural Reconstruction Foundation, Jessore	3,303,759	54.7	4,737,600	11,345,117

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 - 2007 to MicroBanking Bulletin (MBB) or MIX Market.

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

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UPCOMING EVENTS

Better Business Practices for Sustainable Social Change

December 29 - December 30, 2008, Nitte, India

This conference is presented by Justice K S Hegde Institute of Management in partnership with the School of Social Policy and Practice at the University of Pennsylvania. Sample themes include financial inclusion, corporate-NGO partnerships and knowledge management for sustainable development. The conference fee is USD 125 for international delegates and INR 1250 (USD 25) for Indian delegates, although registration is officially closed. More information is available via suprabha@jkshim.ac.in or <http://www.jkshim.ac.in/conference/confhome.html>.

International Conference on Microfinance

January 21 - January 23, 2009, Puducherry, India

Pondicherry University's Commerce Department will host this conference, which will address strategies for encouraging development and eradicating poverty in India through insurance, savings, pension and credit services. Registration costs, which include board, are USD 125 for international participants and USD 10 to USD 40 for participants from India. More details and registration forms, which were requested by December 15, are available from Dr. D. Lazar at +91 413 2654369, +91 948 6650016 or icomfi2009.enquiry@gmail.com or from <http://www.pondiuni.edu.in/icomfi2009/>.

Microfinance as a Tool for Peacebuilding

January 22 - January 23, 2009, Cali, Colombia

Fundacion Alvaralice is hosting this symposium to discuss how microfinance can promote peace and stability for victims of conflict and poverty. The registration fee is USD 300 for international participants, USD 200 for Colombian professionals and USD 45 for Colombian students. For further information, contact Aida Lilian Garcés at alilian@alvaralice.org or +57 2 333 12 30 or visit <http://microfinance.alvaralice.org/>.

Implementing the EU Microcredit Initiative

January 26 - January 27, 2009, Berlin, Germany

The ChaBaLEU (Character-Based Lending) Project, which encourages microcredit services for small and medium-sized enterprises (SMEs) in Western Europe will host this forum subtitled: "What can we learn from developing and transforming countries?" Registration for this free event is requested via Carina Schultz at +49 30 2014 6204, chabaleu@gtz.de or <http://www.chabal.eu/64.html>.

Third Annual Microfinance East: The Investment Opportunity

January 29 - January 30, 2009, New York, United States

This event will cover topics such as the value of ratings, operating in the current economy, risk management strategies and the role of government in microfinance. Commercial registrations are USD 1,895, while the nonprofit and government attendee fee is USD 795. Details are available from Menna Lloyd White at mlloydwhite@frallc.com, +1 704 341-2440 or <http://www.frallc.com/conference.aspx?ccode=B679>.

Banking & Payment Technologies in East Africa

February 17 - February 19, 2009, Nairobi, Kenya

The fee for this event is USD 650; a separate Islamic Banking Masterclass is also available for USD 190. Discounts apply for multiple registrants. For more information on the conference, contact Helen Morony at +44-1480-880774 or info@aitecafrica.com or visit <http://www.aitecafrica.com/>.

Second Annual Microfinance Forum

March 19 - March 20, 2009, Vienna, Austria

Uniglobal Research is organizing this forum on how global trends and imbalances affect the microfinance industry, business models for low-income markets, including poor people as investors and producers, common standards for the industry, mobile banking, retail microfinance and micro life insurance. Registration costs the equivalent of USD 2130, including VAT, and is available at <https://www.uniglobalresearch.eu/en/event/2009-66/>. More information is available via Olha Vyshnevskaya at olha@uniglobalresearch.eu or +420 226 538 100.

HBS-ACCION Program on Strategic Leadership in Microfinance

April 13 - April 18, 2009, Cambridge, Massachusetts

Harvard Business School (HBS) and ACCION International are accepting applications for this management and leadership training for executives of microfinance institutions, mainstream banks and others in or entering the industry. Leading the program are HBS faculty members V. Kasturi Rangan and Michael Chu. Registration fees begin at USD 5700, with scholarship assistance available. More information is available via Anita Gardeva at agardeva@accion.org, +1 617 625 7080 or <http://www.accion.org/Page.aspx?pid=494>.

Chicago Microfinance Conference

May 8, 2009, Chicago, United States

More details on this conference, subtitled "Navigating the Markets: Microfinance in the New Economy," are expected shortly at <http://www.chicagomicrofinance.com/>. Updates can be requested at chicagomicrofinance@gmail.com. No telephone number is offered.

Global Microfinance Congress

May 18 - May 20, 2009, New York, United States

PlaNNet Finance and American Conference Institute are hosting this event, which will cover IPOs, exit strategies, case studies and the role of venture capital in microfinance. The "early" registration fee is USD 1495. More information is available via +1 888 224 2480, +1 212 352 3220, CustomerService@AmericanConference.com or <http://microfinancecongress.com/>.

Latin America - Caribbean Regional Microcredit Summit

June 8 - June 10, 2009, Cartagena, Colombia

More details on this conference are expected shortly at <http://microcreditsummit.org/>. The Microcredit Summit Campaign may be reached at +1 202 637 9600 or info@microcreditsummit.org.

Asia Insurance Review Microinsurance Conference

July 22 - July 23, 2009, China

More details on this conference, including its location, are expected shortly. Requests for updates on the event may be made at http://www.asiainsurancereview.com/pages/conference_details.asp?id=124/. The contact person is May Low, who may be reached at +65 63723185 or may@asiainsurancereview.com. ♦♦♦

PAPER WRAP-UPS

Innovations in Microfinance in Southeast Asia

By Gilberto M. Llanto and Ryu Fukui, published by the Philippine Institute for Development Studies as Discussion Paper No. 2003-11, July 2003, 18 pages, available at: http://econpapers.repec.org/paper/phddpaper/dp_5F2003-11.htm

The authors describe three “emerging innovations” in microfinance observed through 2003 in southeast Asian markets, innovations that made it possible for microfinance institutions (MFIs) to reach a greater number of poor households in a sustainable manner. These innovations help reduce MFIs’ transaction costs and risk, and they enabled poor households to smooth their investment and consumption patterns. The paper also argues for government support of microfinance.

The Philippines: Credit Union Empowerment and Strengthening Project

Beginning in the 1970s, production credit programs administered by donors such as the United States Agency for International Development (USAID) financed small farms. After these programs were deemed “failures,” borrowers began looking for external capital and moved away from the credit union model until the World Council of Credit Unions (WOCCU) began revitalizing the image of credit unions in the 1980s. The first microfinance innovation identified in the paper is the Credit Union Empowerment and Strengthening Project (CUESP), which was implemented in Mindanao by WOCCU from 1997 to 2002.

In 2003, CUESP was working with 16 partner cooperatives in Mindanao and hoped to expand its technical assistance to 29 more cooperatives in various conflict-prone areas in Mindanao. CUESP transferred microfinance technology to its partner cooperatives through two approaches: (1) savings and credit with education and (2) model credit union building. The first approach involved giving poor rural women access to financial services and teaching them the fundamentals of saving. The second approach was comprised of several components: credit union institutional strengthening, savings mobilization and marketing, credit administration, safety and soundness and short-term technical assistance.

Llanto and Fukui detail the effect of model credit unions on the accounting measures of CUESP’s partner cooperatives. It is interesting to note that the delinquency ratio among all cooperatives dropped from 63 percent in December 1998 to 7 percent in March 2003. Non-earning assets also trended downward from 20 percent to 9 percent during the same period. Net institutional capital, on the other hand, grew from -16.89 percent in December 1998 to 11.38 percent in March 2003. The cooperatives’ liquidity and savings ratios also grew substantially.

Lastly, Llanto and Fukui draw attention to CUESP’s emphasis on savings mobilization, strict credit discipline and strict adherence to performance standards. In particular, CUESP introduced a “cooperative branding strategy” that the authors believe was the first to be adopted in Asia. The brand name Finance Organizations Achieving Certified Credit Union Standards (FOCCUS) indicates that a cooperative has maintained certain financial ratios and other internationally recognized operational protocols, offering an assurance of fiscal soundness.

The Philippines: Micro-insurance: CARD Mutual Benefit Association

The authors next cite the micro-insurance program developed by the Center for Agriculture and Rural Development (CARD), a Philippine credit organization. CARD’s micro-insurance product was a simple mutual fund called the Members Mutual Fund (MMF). MMF was introduced to address issues faced by CARD following a member’s death. Later, the MMF was used not only to cover death, but also disability and pension benefits. In 1999, the MMF was registered with the Securities and Exchange Commission as the CARD Mutual Benefit Association (CARD MBA), and in 2001 the Office of the Insurance Commission gave CARD MBA a license to operate as a mutual benefit association.

The CARD Mutual Benefit Association is innovative because its members own and manage it. The basic infrastructure of CARD MBA is the practice of *damayan*, a local Philippine custom whereby community members contribute money to the family of an individual who has recently died. Everyone in the community can expect monetary support should someone in their family pass away. In

essence, CARD introduced the MBA to fit a market niche particular to the Philippines that was not being served by traditional insurance companies. 98 percent of CARD clients are poor women who often cannot access traditional insurance services because of transaction costs, the insurance industry’s perception of the rural poor’s ability to pay, lack of credit information among the rural poor and other informational obstacles.

Indonesia: Innovations on savings mobilization: Bank Rakyat Unit Desa

Bank Rakyat Indonesia (BRI) is a state-owned bank in Indonesia with 23 divisions. The Business Unit Desa Division oversees self-contained financial service units located at sub-district capitals, which lend, receive deposits and process payments for utility bills and property taxes. From 1993 to 1996, the supervision costs for the system averaged 1.2 percent of total loans outstanding. Through its unit desas, BRI mobilizes savings from different parts of the rural economy with a mix of liquid and non-liquid savings products and levels of return that vary with the deposit amount.

Llanto and Fukui consider the unit desa system a microfinance innovation because it has “enabled millions of poor Indonesians” to gain access to a savings program that provides liquidity and strong returns. The authors provide information on the savings and loans outstanding among the BRI unit desas from 1984 until 2000. It is interesting to note that the number of savings accounts grew from 2,655 accounts in 1984 to 25,098,169 accounts in 2000. Similarly, the number of loan accounts grew from 640,746 to 2,577,180 during the same period. The total savings to loan ratio grew from 38 percent to 269 percent.

For Llanto and Fukui, the ultimate test of the sustainability of the system was the 1997 Asian financial crisis, which crushed the traditional Indonesian banking system. The unit desas remained profitable and even attracted 1.29 million new savers during the peak of the crisis from June to August 1998. In fact, by June 1999 the unit desas’ 12-month loss ratio of 1.5 percent dropped below their long-term loss ratio of 2.1 percent. According to Llanto and Fukui, the unit desa system shows that it is possible for a formal financial intermediary to reach a large number of savers and borrowers while operating in a cost-effective manner.

Microfinance on the Rise

Published by Arthur D. Little as a Financial Services INSIGHT, November 13, 2008, 4 pages, available at: <http://www.adl.com/reports.html?view=329>.

In this report, international management consulting firm Arthur D. Little (ADL) analyzes the factors affecting the demand and supply of microfinance and outlines the core operational components of good microfinance practice. The report is an interesting analysis of the industry's state of affairs and offers a strong prediction that microfinance will become a new asset class for traditional investors.

Microfinance Demand and Supply

Across the world, low-income clients typically comprise the majority of microfinance's customer segment, and ADL argues that demand from this segment will only continue to grow. The report offers percentages of the total population that low-income consumers comprise among various European countries. These proportions range from ten percent in the Netherlands to 21 percent in Greece; the average over 15 EU countries is slightly over 15 percent. A subsequent figure illustrates the growth in purchasing power and net income of low-income consumers from USD 5.5 million in 1996 to USD 9.8 million in 2006. As this pace is faster than that of the average population, ADL sees an increase in the purchasing power and credit worthiness of potential low-income borrowers. Accompanying this demand surge, notes ADL, are market constraints on the supply of capital from conventional creditors.

The firm estimates that of the 2.8 billion people in the world who live on less than USD 2 per day, approximately 500 million can be considered microentrepreneurs in need of credit. Assuming an average loan size of USD 500, this translates into a global demand of USD 250 billion today. Only about USD 25 billion in loans are outstanding globally, a mere 10 percent of demand. In this environment, ADL deems it inevitable that traditional investment institutions will create new assets to fill at least part of this gap. Other pull factors encouraging the involvement of traditional finance are the high returns on equity of microfinance institutions (MFIs) older than eight years (a median of over ten percent) and microfinance's low correlation with conventional capital markets, rendering it a strategic portfolio diversification tool. In sum, argues ADL, the chasm between global demand and supply, the favorable risk-return and niche diversification characteristics of microfinance create a setting ripe for its emergence as a new asset class in the coming decades.

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Good Microcredit Business Models

ADL highlights the fact that many contemporary MFIs rely on subsidies, a habit they must wean themselves from if they are to achieve self-sufficiency. Furthermore, MFIs intent on achieving self-sufficiency must maximize operating efficiency and employee productivity. ADL draws attention to the following core components of successful microfinance, as divided into three categories: customers, lending processes, and structure and organization.

Customers

1. Small loans, primarily to women: Improving the livelihoods of these often-creditworthy borrowers improves not only their socioeconomic positions but also that of their children.
2. Peer and progressive lending: Successful programs finance loans for small groups of people, each of whom assumes equal rights and responsibilities for each loan. These arrangements facilitate risk-sharing and improve market access for group members and can be scaled-up to include more people or more services over time.
3. Target poor microentrepreneurs: Loans must reach the economically active among the poor.

Lending processes

1. Simple and quick lending process: Application and lending processes must achieve quick turnaround times, ideally within two weeks.
2. Commitment to training: Many successful programs teach clients about accounting, customer service and marketing to strengthen these clients' micro-businesses.
3. Strong monitoring mechanisms: Microfinanciers must monitor a number of operational statistics, including their repayment rate, the success of their target microenterprises and self-sustainability. "Hand-holding" of clients and monitoring clients' businesses is also encouraged.

Structure and organization

1. Supportive regulatory framework: A supportive regulatory framework that promotes the expansion of MFIs affects the reach and sustainability of microcredit programs.
2. "Appropriate" interest charged: Successful programs typically charge an "appropriate" level of interest. ADL does not define this level other than by saying it is higher than that of a traditional bank and lower than that charged by a money-lender or loan shark.
3. Well-trained staff: The recruitment, training and retention of productive staff are crucial. ♦♦♦

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Microfinance Institutions in Transition